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24 JULY 1986

# China Report

ECONOMIC AFFAIRS



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CHINA REPORT  
ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

PAPER STUDIES ENTERPRISE SHARES SYSTEM

HK240543 Beijing JINGJI CANKAO in Chinese 3 Jun 86 p 2

[Article by Gu Tiefeng [7357 6993 7364]: "Implementing a Shares System Is a Breakthrough Point in Reforming the Ownership System--Discussion on Theory and Practice of an Enterprise Shares System (Part Two)"]

[Text] Many experts and academics attending the symposium held that the implementation of the enterprise shares system is a point of breakthrough in, and an important component of, reforming the ownership system.

Prior to the symposium, the leaders of the Shenyang City machine-building industry administrative bureau had gone to Beijing to make special reports to the State Commission for Restructuring the Economic System, the State Economic Commission, and the Ministry of Machine-Building Industry. They had also sought instructions from Yu Guangyuan, Ma Hong, Liu Guoguang, Jiang Yiwei, and other economists on some theoretical issues. Yu Guangyuan said: "The socialist shares system is an issue in the category of the structural reform of the form of ownership. The shares economy is a form of the cooperative economy and represents a new development of the diverse forms of the socialist cooperative economy." Ma Hong said: "I favor the implementation of the shares system in enterprises. The implementation of the shares system has at least two advantages: First, it can solve or ease capital shortages; second, it can closely link the interests of the state, the collective, and the individual." Liu Guoguang said: "I have always favored the enterprise shares system. I think not only should collective enterprises institute the shares system but also large and medium-sized key enterprises should conduct experiments at selected units. If enterprises want to develop lateral associations, they should institute the shares system so that the lateral association can develop steadily and over a long period." Jiang Yiwei said: "I am all for the implementation of the enterprise shares system. You are now conducting experiments on distribution according to work or bonus distribution according to the number of shares held. In the future, you can also share out bonus according to posts and economic responsibility assumed, and combined distribution according to work with bonus distribution according to the number of shares held."

The experts and academics attending the symposium fully affirmed the trial implementation of the enterprise shares system by the Shenyang City machine-building industry administrative bureau.

--The implementation of the enterprise shares system represents a major breakthrough in reforming the ownership system. Feng Yuzhong, president and associate professor of Liaoning University, said: By instituting the shares system in collective enterprises the Shenyang City machine-building industry administrative bureau is setting right the ownership system relationship, which represents a highly creative, fundamental reform. Professor Gu Shutang, dean of the Economics Institute of Nankai University, held that socialism should undergo different stages of development. In the early stage of socialism, the coexistence of diverse ownership forms, with the system of public ownership as the main body, is more suited to the current development of the productive forces. Since diverse forms of ownership are allowed to exist side by side, the implementation of the shares system is legal. Facts have proved that enterprises instituting the shares system can promote the development of the productive forces. In this sense, the existence of enterprises implementing the shares system is both legal and rational.

--The implementation of the shares system has defined, in terms of economic relationship, the status of the workers and staff members as masters of the enterprises, and can satisfactorily handle the relationship between the interests of the state, the enterprise, and the workers and staff members and promote the development of the productive forces. Gu Shutang held: With the workers and staff members "procuring shares" in enterprises, the means of production are directly integrated with laborers, the relationship between the interests of the state, the enterprise, and the workers and staff members is in greater harmony, the role of the workers and staff members as masters of the enterprises can easily be brought into play and, since the workers and staff members are concerned about the development of the enterprises and their economic performance, they will certainly bring into better play their initiative.

--The implementation of the shares system can promote lateral economic association among enterprises. Jiang Yiwei held: The implementation of the enterprise shares system has broken down the barriers between localities and departments and between different ownership systems and can promote lateral economic association between enterprises. Wang Guishan, head of the investigation and study office of the economic work department of the Liaoning Provincial CPC Committee, held that the implementation of the enterprise shares system can promote the lateral flow and rational formation of funds and labor and the in-depth development of lateral economic association.

--Instituting the shares system in collective enterprises is of great value to state enterprises. Jiang Yiwei held that the experience gained by the Shenyang machine-building industry administrative bureau in experimenting with the shares system is not only suited to collective enterprises but is also of great value to state enterprises. In theoretical terms he explained various questions, such as that the workers in state enterprises should have relative ownership and power of operation and should become the main body of the enterprises. He also held that state enterprises should also implement the shares system.

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CSO: 4006/1147

NATIONAL POLICY AND ISSUES

PAPER DISCUSSES SHARP FALL IN GROWTH RATE

HK300953 Shanghai SHIJIE JINGJI DAOBAO in Chinese 16 Jun 86 p 2

[Article by He Xiaodong [6320 2556 2639], Huang Xiaoxiang [7806 1420 4382], and Li Jinzao [2621 6855 2483]: "Two Comments on Precipitous Fall in Economic Growth Rate"]

[Text] The gross value of the nation's industrial production from January to April this year increased by 4.2 percent over the corresponding period last year, while the growth rate of the total industrial output value from January to April last year was 23.7 percent. This is a difference of 19.5 percentage points. Such a precipitous fall has rarely been seen in the history of China's economic development. We would like to make two comments upon this issue.

1. The Real Cause of the Precipitous Fall in Growth Rate

The economic circles attribute the precipitous fall in the rate of industrial production to restrictions in either supply or demand. In our view, the real cause lies in the production field and in the enterprises themselves. Specifically, the reform of the economic management structure, with decentralization as its core, conducted in the past few years has generally provided the enterprises with certain capacity for transformation and development and has invigorated the economy as a whole. At the same time, however, it has also developed a situation whereby the dual economic structure and economic mechanism exist side by side. Due to the tightening macroeconomic control and harsher microeconomic interference, the power which was transferred to the enterprises, particularly the large and medium-sized state enterprises, have lost their vitality, that the side effect due to friction between the dual structure and the dual mechanism prevails in production and circulation, and that the production field plunges into chaos. As for the worsening national economic structure, falling supplies of resources and circulating capital, deteriorating disposition of resources, rising comparable costs, poorer economic results, and so on--these are only the consequences. In the first quarter of this year, the rate of industrial production in such supercities as Beijing and Shanghai slid down first. This is a forcible illustration.

2. Appraising the Current Retrenchment Policy

At the initial stage of the reform of the economic structure, we transferred power to enterprises and allowed them to retain some profits; in the financial

structure we adopted the practice of "eating from different pots" with the principal aim of invigorating the enterprises and arousing the initiative of both the central and local authorities. We certainly attained some notable results. In the meantime, however, the mechanism for genuinely realizing the decisionmaking power of enterprises was not quite perfect; many problems in the relationship between the central and local financial authorities had not been solved completely; and, more important, a unified market and a perfect market system had not been established. All this resulted in both the investment and consumption funds getting out of control at the end of 1984. Consequently, people began to gain an understanding of the importance of macroeconomic control and to explore methods for improving macroeconomic control mechanism. This should have been a turning point for deepening the reform. However, because we were not adequately prepared theoretically and mentally for the loss of control, some were panic-stricken and the traditional idea of exercising administrative intervention again gained ground. For a time, people dwelled more on macroeconomic control and less on microeconomic flexibility and paid more attention to expounding the role of centralized management than stressing the regulatory role of market mechanism; they stressed the need to rely on mandatory orders instead of establishing inducement mechanism and doing things in a rigid way regardless of the actual conditions instead of suiting measures according to the actual conditions.

In short, the cause of losing macroeconomic control seemed to lie completely in the invigoration of enterprises and, in order to tighten macroeconomic control, the only way out was to resort to administrative measures.

The current macroeconomic retrenchment policy finds concentrated expression in the following four aspects: Instituting a regional or departmental head responsibility system to control the scope of investment through quotas; adopting a method of uniformity to control bank credits by a specified amount; adopting a method of managing the wage funds through special accounts to control the base; and employing the method of distributing a major portion of energy and raw and semifinished materials in short supply to exercise planned control. These retrenchment measures can be summed up as the old administrative and management methods. They can at least cause the following problems:

First, they will intensify friction between the dual structure and the dual mechanism, thus extending the side effect caused by the friction and endangering the reform achievements.

Second, they cannot completely solve the problem of swelling investment and overheated economy but will bring about cyclical economic fluctuations.

Third, they will indefinitely extend the stalemate between the dual structure and the dual mechanism, undermine psychological expectations of social reform, and reduce the capability of society to withstand turbulence.

Fourth, the short-term difficulties arising from the friction between the dual structure and the dual mechanism will constantly emerge, which will make it necessary to constantly adopt administrative measures to bring them under control. This will inevitably develop into a cyclical situation characterized

by "chaos following relaxed controls and inflexibility following tight controls" as occurred in the past, thus perpetuating and rationalizing the administrative measures and fundamentally eroding the long-term objective of the reform.

Practice over the past 30-odd years since the founding of the PRC has proved that administrative measures cannot effectively solve the problem of long-term development. Nor can it effectively overcome the short-term difficulties in the reform and help us make a smooth transition to the new economic structure. The quiet retrogression conducted under the banner of tightening macroeconomic control will never bring us an economic environment needed by the reform. On the contrary, it will only bring about new predicaments and extend the pain of the transitional period. The changeover from old to new economic structures is a major social change which will surely bring about social turmoil. We should make adequate preparations for this spiritually and theoretically. We are duty-bound not to turn back in reform for there is no way out in retrogression. Of all our measures, the most fundamental one is to co-ordinate macroeconomic and microeconomic reform measures as soon as possible so as to establish a relatively comprehensive structure of commodity economy. History does not give us much time. What is important now is to tide over the difficulties with clenched teeth and to extricate ourselves from this difficult position as soon as possible. As Marx put it: Even if a society succeeds in discovering a natural law governing its movement, it cannot skip over, or abolish through laws and decrees, the stages of natural development but it can shorten and reduce the pain of childbirth.

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## ECONOMIC DEVELOPMENT ZONES

### SHANGHAI URGED TO STRESS PRODUCTION FOR EXPORT

OW221436 Beijing XINHUA in English 1412 GMT 22 Jun 86

[Text] Shanghai, June 22 (XINHUA)--Economists suggested Shanghai should build export-oriented production systems to promote its exports which had come to a standstill for four years from 1982, according to a meeting here.

More than 100 experts from the State Council and Shanghai attended the three-day meeting which closed Saturday. It focused on Shanghai's implementation of the opening policy and development.

Experts said that Shanghai should first set up an export-oriented textile system as one third of textile enterprises there produce goods for export at present. "Textiles earn 1.8 billion U.S. dollars a year now, about a half of Shanghai's foreign exchange," the meeting was told.

"Textile enterprises are now preparing to organize enterprise groups and then set up a system integrating production with foreign trade," said Mei Shouchun, director of the municipal textile bureau.

Experts estimated that the system will help increase Shanghai's textile exports from 1.8 billion to 2.5 billion U.S. dollars by 1990.

Though machinery only yields 300 million U.S. dollars a year, the industry which takes up one-third of the city's total industrial output value has a great potential for export.

During the 1986-90 period, Shanghai should streamline 100 major plants to increase exports of power generating equipment, machine tools, tractors, medical apparatus, textile machines, bicycles, wrist watches and cameras. Those products are expected to earn 600 million U.S. dollars by 1990, doubling the current figure, according to the meeting sources.

Experts also suggested to expand export-oriented farm produce centers which will triple the current export quantity worth nearly 100 million U.S. dollars.

When discussing high-technology product centers for export, the meeting was told that by the end of the Seventh Five-Year Plan period (1986-90),

micro-electronics, optical-fibre communications, new materials, laser and bio-engineering industries will produce an annual output value of three billion yuan and become foreign exchange earners by the end of the century.

"Establishment of the export-oriented system will help reform the current foreign trade management," said Wan Zengwei, an expert from the Shanghai Economic Research Center.

Under the old management system, manufacturers learned less information on international market and requirements of imports and their products, thus, are less competitive due to the separation between industrial enterprises and trade businesses.

In recent years, about 1,000 enterprises have integrated production with foreign trade.

Ju Chongwei, an official from a research center of the State Council, stressed that establishment of export-oriented production systems is a "strategic measure" of China for expanding exports.

'Only through expansion of exports, Shanghai will be able to import more equipment, technology and use more foreign funds," Vice-Mayor Li Zhaoji said.

Shanghai produces one-ninth of China's manufactured goods and one-sixth of China's exports. During the 1980-85 period, Shanghai's export volume was at a standstill for four years, though it earned total foreign exchange of 18 billion U.S. dollars during that period, a 20 percent growth over the previous five-year period.

According to the Seventh Five-Year Plan, Shanghai's exports will grow 8.6 percent a year, amounting to 4.3 billion U.S. dollars by 1990, the meeting was told.

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CSO: 4020/363

ECONOMIC DEVELOPMENT ZONES

QINGDAO SEEKS MORE FOREIGN TECHNOLOGY

OW250347 Beijing XINHUA in English 0133 GMT 25 Jun 86

[Text] Jinan, June 25 (XINHUA)--Renovating existing enterprises with imported technology and boosting exports will be the major tasks for Qingdao, an open coastal city in Shandong Province, in the next five years.

Mayor Guo Songnian said today that the city plans 100 key upgrading projects for the Seventh Five-Year Plan period (1986-1990), which cover textiles, light industry, rubber, chemicals, electronics, energy, communications and raw materials.

An investment of 1.7 billion yuan will be required, including 360 million U.S. dollars in foreign currency.

Chinese-foreign joint ventures and factories with exclusive foreign funds are sought for crop cultivation, fish and livestock breeding, and processing of farm produce, Guo said.

Allowed to open wider to foreign businesses in 1984, Qingdao signed 330 technical cooperation items, involving 82 million U.S. dollars in foreign investment, with overseas investors in the past two years.

In the next five years, he said, more than two billion yuan, or one third of the city's investment, will go to the economic development zone in Huangdao district. By 1990, at least 40 Chinese-foreign ventures, with a total investment of 600 million yuan, will be built there.

As for export, he said, the increase in the period will be 14 percent annually, compared with 7.7 percent for industry and agriculture.

Commodities purchased for export will be worth 1.9 billion yuan in 1990, as against 990 million yuan last year.

It will run 30 export-oriented factories and mines to bring the total to 40. Such agricultural produce as peanuts, corn, dried sweet potatoes, ducks and geese, down products, grapes and beverages will be added to the export list of cotton, mink pelts, chickens, apples, dried peppers, asparagus and aquatic products.

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CSO: 4020/363

ECONOMIC PLANNING

JOURNAL ON QUESTIONS IN CIRCULATING FUNDS

HK010951 Beijing JINGJI YANJIU in Chinese No 5, 20 May 86 pp 36-41, 35

[Article by Jiang Yue [5592 6460] of the Research Institute on Reform of China's Economic Structure: "The Current Circulating Fund: Its Shortage Mechanism and Countermeasures"]

I. Reality of Shortage

In the past 2 years in our country the growth of circulating funds and the accumulation of circulation assets have been much lower than the growth and accumulation of fixed assets. From the First 5-Year Plan period to the Fifth 5-Year Plan period, the growth of fixed assets investments of enterprises under the system of ownership by the whole people basically matched the growth of circulating funds. During the Sixth 5-Year Plan period, from 1981 to 1983, the average annual growth rate of fixed assets investments was 8.6 percent, that of circulating funds was 7.4 percent, and the two were nearly at the same pace. But from 1984 to 1985, the average annual growth rate of fixed assets investments was 32 percent, whereas that of circulating funds was only 14 percent, with a great disparity between the two. From the First 5-Year Plan period to the Fifth 5-Year Plan period, the accumulation of circulating funds in our country occupied an average proportion of 30 percent of the gross volume of accumulation, but in 1984 it dropped from the 29.1 percent of 1981 to 16.2 percent, and dropped even lower in 1985. Judging from the experiences in our country through the years, maintaining a proportion of circulating fund accumulation at around 30 percent is necessary for production and circulation.

Beginning from the second half year of last year, there was an insufficiency of circulating funds. The balances due to each other among the enterprises have become larger daily. By the end of the year, the gross amount of unpaid balances among the enterprises far exceeded 10 billion yuan. By January and February this year, the unpaid balances had gotten out of control, thus causing an increase in overstock in the warehouses and a drop in the growth rate of production.

## II. Necessity of Judgment

The shortage of circulating funds deeply reflects the internal contradictions between our country's macroeconomic general movements and the operating mechanism and is a problem much more complex than a directly perceived phenomenon. We shall now start by assessing two basic thoughts and their background for solving the problem of a shortage of circulating funds, and proceed to analyze the substance of the shortage of circulating funds and the mechanism for its formation.

The first basic thought on solving the problem of a shortage of circulating funds is expanding the general demand. We may increase the issuance of banknotes, enlarge the scale of loans, and increase the circulating funds, and thereby, on the basis of the end demand (demand formed by the investment fund and consumption fund), increase the intermediate demand (demand for intermediate products formed by the circulating fund), enlarge the general demand, stimulate production, and increase supply.

The second line of basic thought is improvement of the demand structure. We may tighten fixed assets investment and consumption funds and convert them to circulating funds, and thereby, on the precondition of not expanding the general demand, reduce the end demand but increase the intermediate demand, improve the demand structure, and expand the effective supply.

The crux of the disparity between these two lines of thought lies in the totally different assessment of the relations between general demand and general supply.

The situation assessment vaguely embodied in the first line of thought is that the major problem at present is insufficient general demand. It presupposes that the excessive gradual reduction in growth speed in the fourth quarter of last year and in January and February this year was mainly due to the insufficiency in general demand. Shortage of circulating funds is only one of the factors of the insufficiency in general demand. Last year, tightening of the money market brought about an excessive control over demand, including an excessive control over the end demand. At present, the production capacity and the effective supply capacity are more than sufficient to satisfy the existing end demand, and the insufficiency in general supply is caused by the insufficiency in general demand. Hence, increasing the intermediate demand, that is, increasing the loans for circulating funds and at the same time increasing investment and consumption a little, not only will not cause an inflation in general demand but can stimulate supply and restore the balance between general supply and general demand.

The situation assessment vaguely embodied in the second line of thought is that the major problem at present is the irrational demand structure. The main cause for the excessive progressive reduction of the growth rate is not the insufficiency in general demand but is the insufficiency in intermediate demand. At present, the demand situation is the coexistence

of inflation of the end demand and insufficiency in intermediate demand, manifested in excessive investment funds and consumption funds and insufficient circulating funds. Due to insufficient circulating funds, the contradictions between the demand and supply of intermediate products become relatively acute and, as a result, the phenomena of insufficient use of the production capacity for intermediate products appears. It also progressively results in the insufficient use of the production capacity of the end products. Under the conditions of an excessive end-demand such as inflation in investment, in consumption fund, and in surplus social purchasing power, restriction of supply aggravates the contradiction between general demand and general supply. Hence, we should not increase the general demand but should only improve the demand structure. We should reduce a portion of the end-demand, expand the intermediate demand, and, simultaneously with fully utilizing the existing production and supply capacities, reduce the demand for investment and consumption, restore the normal growth rate in production, and eliminate the contradiction between general demand and general supply.

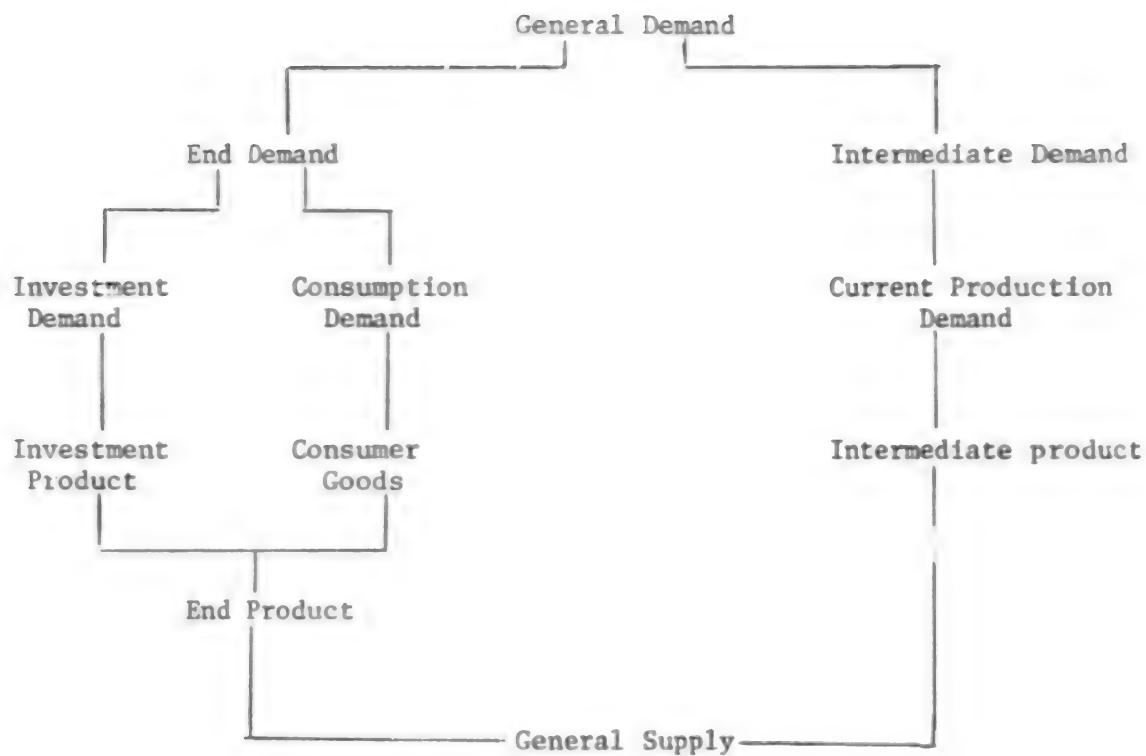
Both of the assessments have the common points of acknowledging the shortage of circulating funds and the insufficiency of intermediate demand. Another common point is that a solution to the problem of circulating funds will help restore production and increase effective supply. However, they entertain diametrically opposite views on whether or not there is inflation in general demand and end-demand (fixed assets investments and consumption funds).

If the situation assessment is acknowledged to be correct, then it follows that the line of thought on solving the problem of a shortage of circulating funds is correct. Hence, it is necessary to analyze and assess the current relations between demand and supply.

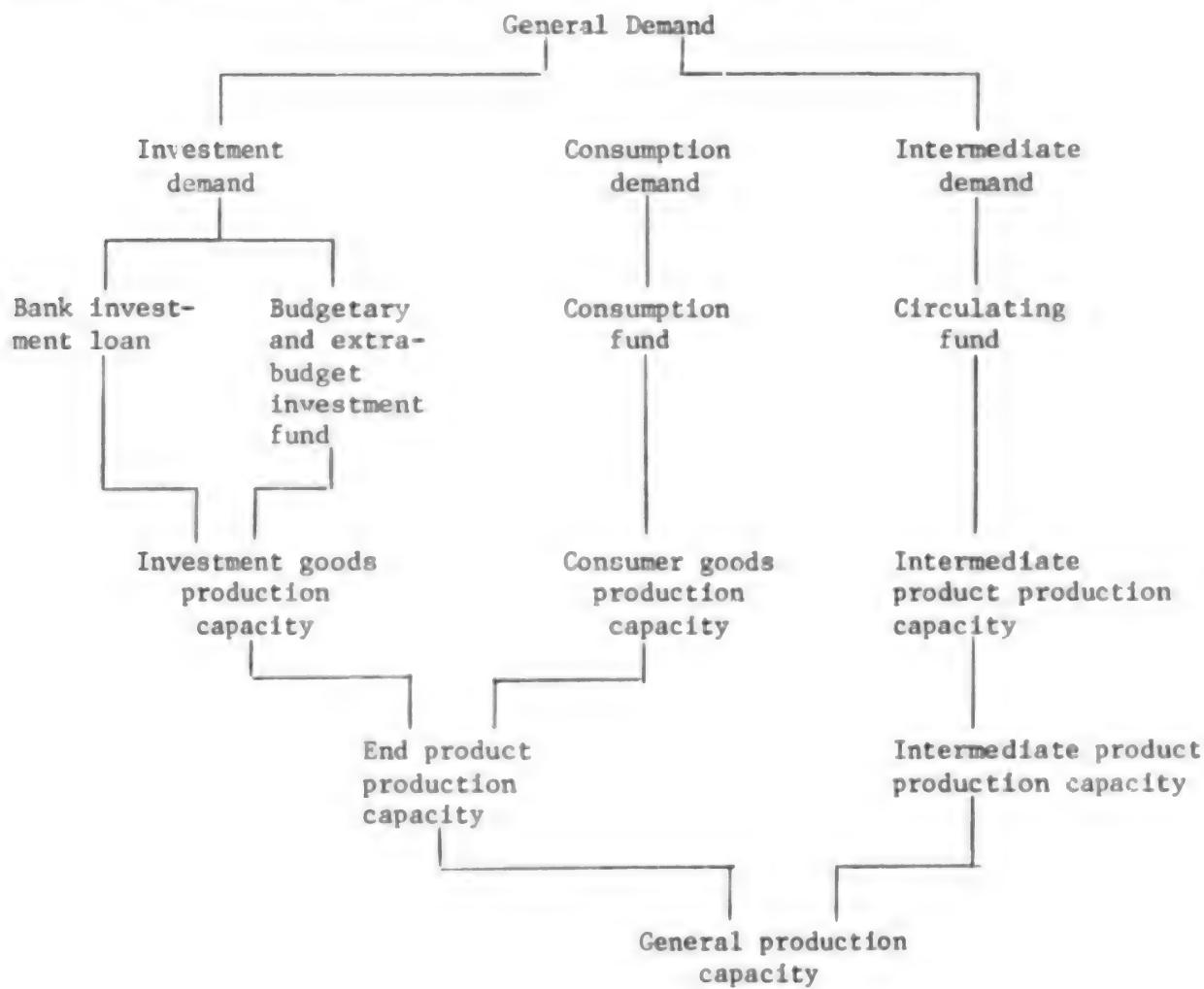
### III. A Possible Pattern

Under the conditions of insufficient intermediate demand, what possible kind of relationship or pattern can the general demand and general supply have?

Let us first study the relationship between general demand, intermediate demand, and the demand with general supply, supply of intermediate products, and supply of final products. The following is a brief diagram of this kind of relationship:



Here the connections between demand and supply are as follows:



From the above diagrams, we can see that general demand is formed by end demand and intermediate demand and general supply is formed by the supply of end product and intermediate product. The corresponding relations between general demand and general supply are the correlation between end demand and end products and the correlation between intermediate demand and intermediate products.

The middle links connecting demand and supply are the distribution pattern of funds under different directions of demand and the distribution pattern of production capacity under different directions of supply.

The maximum possible scale and structure of short-term supply is first determined by the scale and structure of the production capacity. The investment goods production capacity, the consumer goods production capacity, and the intermediate products production capacity determine the maximum possible supply scale of investment articles, consumer goods, and intermediate products. In the course of reproduction, due to the lack of coordination of the production capacity at various links forming a bottleneck, a short-term restriction is formed which determines the actual degree of use for the production capacity. This is a condition economic circles have frequently paid attention to and have fully dealt with in their discussions.

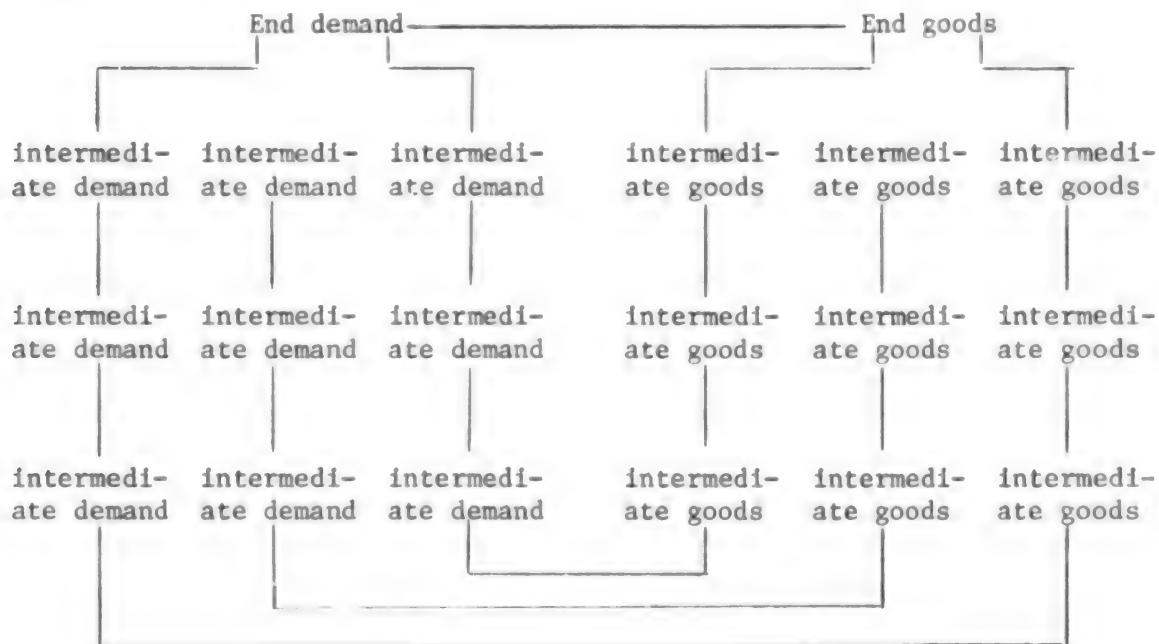
However, in the existing situation of social production capacity coming under short-term restrictions, the scale and structure of short-term actual supply are determined by the demand structure formed by the spread or distribution pattern of funds. The actual degree of use for production capacity is determined by the demand structure. Due to the distribution or spread of funds not being rational, it is also possible to form a demand bottleneck and a short-term restriction of demand, thus determining the actual degree of use for production capacity. This is a problem which deserves exceptional attention and study.

An example is the production of electrical equipment among the investment articles. The end demand formed by investment funds of a productive nature requires units manufacturing electrical equipment to supply electrical equipment. In the event of insufficient demand, then the production capacity of electrical equipment cannot be fully utilized. This will further cause, step by step, the insufficient use, due to the insufficient demand, of the production power of all the factories producing the input-materials for electrical equipment and primary input materials. This illustrates the situation of the insufficiency of end demand restricting the degree of use of the existing production capacity. Let us take another set of conditions. Assuming end demand to be extremely sufficient, even to the extent of inflation, then in such cases, the electrical equipment production capacity should be able to attain full utilization, even to the extent of excess utilization. However, if the circulating funds of the electrical machinery manufacturing factories are insufficient and cannot finance the purchase of sufficient input materials to fully satisfy the demand for the full display of the production capacity, then, despite the sufficient demand for electrical equipment, the production

capacity of electrical equipment still cannot be fully utilized. In turn, the gap between supply and demand is likely to be widened. Further spread will result in, due to the insufficient demand, that the production capacity of factories turning out electrical machinery input materials and other primary input materials are unable to be effectively utilized. This is a typical illustration of insufficient intermediate demand restricting the degree of use of the existing production capacity. Restriction of the degree of use of the existing production capacity is more generally found in various production stages. Similarly, in the event of any factory manufacturing electrical equipment input materials happening to have insufficient circulating funds, the consequences will be progressively transferred, causing insufficient use of the production capacity and intensifying the contradictions between supply and demand.

Hence, be it end demand or intermediate demand, both can form a demand bottleneck and bring about the short-term curtailment of demand. Ordinarily, regarding the inflation or insufficiency of end demand, we have attached importance to and studied more about the role of production and supply. Now we should pay attention to and study more the role played by inflation or the insufficiency of intermediate demand. In particular, we should study the nature and functions of intermediate demand.

The following is a general diagram regarding the role of intermediate demand: [chart as published]



Intermediate demand is formed by numerous stages or links. In the course of production and circulation, it is formed by numerous production and circulation enterprises. In order to complete the production of the end product or goods, it is necessary to pass through numerous intermediate production stages and production of numerous intermediate products or goods. The degree of use of any intermediate production link or stage and any

intermediate product production capacity must be subjected to the restriction of intermediate product demand, and it must be subjected to the restriction of the scale of the input products which can be purchased by the funds in the possession the enterprise producing the intermediate product. Thus, in the production stages of numerous intermediate products, there is the possibility of an insufficiency of intermediate demand restricting the degree of use of production capacity. Moreover, regardless of the condition of the end demand and regardless of the condition of the funds bringing about the end demand, if there is a shortage of circulating funds and an insufficiency of intermediate demand, a demand bottleneck will be formed, as will the condition of a demand shortage restricting the degree of use of the existing production capacity. In particular, the prevalence of the shortage of circulating funds causes the enterprises producing intermediate products to be short of funds for the purchase of the input materials or articles and also short of sufficient demand for the marketing of products. They can thus only reduce the degree of use of their production capacity and curtail supply. This causes below capacity operation in social production and a general shortage in supply, and thereby aggravates the contradictions in social demand and supply. Hence, the distribution setup of funds in the various demand stages determines the structure of general demand, while the distribution setup of production capacity in the various supply stages determines the possible structure of general supply. When the structure of general demand and the structure of general supply relatively correspond to each other, the relations between general demand and general supply are coordinated. If any stage in the structure of general demand is not in coordination with the corresponding stage in the structure of supply capacity (regardless of whether the demand is larger or smaller than the supply production capacity), a contradiction will arise between general demand and general supply. Meanwhile, the condition of intermediate demand plays a particularly outstanding role in supply.

Only under the relations of such a structure can we grasp the relations between general demand and general supply.

Under the current structure in our country, the arrangements for funds in the various areas of demand have a relatively large administrative and planned nature. Moreover, funds are difficult to circulate in the various stages of demand. The distribution pattern of funds being different, gross demand and gross supply can form various kinds of situations. We shall now emphasize four situations that can possibly evolve in general demand and general supply under the conditions of insufficient intermediate demand, and follow up with an assessment of the existing situation.

The first situation: Inflation of general demand, insufficient intermediate demand, and inflation of end demand. At this juncture, due to the insufficiency of circulating funds, in the various production stages, funds for the purchase of input materials are lacking, and sufficient demand for the marketing of finished products is lacking, resulting in the production capacity of intermediate products and end products not being effectively utilized and an insufficiency in the supply of both intermediate

and end products. This aggravates the contradiction between end demand and the supply of end products. This is a contradictory situation when both inflation of end demand and insufficient use of the existing production capacity exist, and it could appear in our country.

The second situation: Adequacy of general demand, but inflation of end demand and insufficiency of intermediate demand. This is manifested in the excess of investment funds and consumption funds and insufficient circulating funds. The result is the same as above. This situation can easily generate an error of lopsided judgment: assuming the existence of inflated general demand on seeing that end demand cannot be met.

Both the above situations can easily breed another error of lopsided judgment: On seeing that the insufficiency in intermediate demand and current production are below capacity, the assumption is made of an insufficiency of general demand.

In reality, in these two situations, insufficient supply happens first and is followed by inflation of end demand. Hence, the way to solve the contradiction is first to increase the circulating funds, increase the intermediate demand, and enhance supply. At the same time, in order to eliminate the imbalance between general demand and general supply, particularly that between end demand and end supply, it is necessary to tighten investment and tighten use of consumption funds.

The third situation: Insufficiency in general demand, in which end demand is adequate but intermediate demand is insufficient. At this juncture, use of the existing production capacity of intermediate product and end product is insufficient and end demand cannot be met, ultimately resulting in contradictions between end demand and end supply. This situation looks like inflation of end demand and inflation of general demand, but in reality it is not so. The method of solving the contradiction is relatively simple. It is: Increase the circulating funds and supplement the intermediate demand, and thereby expand the general demand.

The fourth situation: Insufficient general demand and insufficiency in both intermediate demand and end demand. Under such a condition, merely solving the problem of a shortage of circulating funds can only increase the stock on hand. Only through simultaneously increasing investment funds and consumption funds can there be full use of the production of end product and intermediate product and restoration of the balance between general demand and general supply.

The existing problem is: On the one hand, inflation in fixed assets investment and inflation of end demand; on the other hand, shortage of circulating funds, insufficiency in intermediate demand, and production and supply both being restricted. This is the actual situation. The second situation should be the method used to solve the problem of a shortage of circulating funds; that is, improving the demand structure, and tightening the fixed assets investment fund and converting it to accumulation of circulating funds. However, to truly realize this, it is necessary to concretely analyze the formation of this actual situation and the background of the mechanism.

#### IV. Mechanism of the Formation of the Actual Situation and the Direction of Reform

The essence of a shortage of circulating funds is that, internally in the accumulations of society, an imbalance exists between fixed assets investment accumulation and circulating funds accumulation. The many sources and excessive scale of fixed assets investment funds have edged out the sources and accumulation of circulating funds.

Since 1979, through the reforms of the structure such as invigorating the economy, streamlining the government organs, delegating power to lower levels, and "eating from different pots," our country's economic growth has been accelerated and the gross volume of social funds has greatly increased. In particular, the gross volume of funds both within the budget and extrabudgetary available for use for accumulation has greatly increased.

However, since enforcement in 1983 of the measure of the banks having unified control of the circulating funds and the Ministry of Finance no longer making appropriations for circulating funds, the banks have actually enforced the system of full-scale credit and loans with regard to circulating funds. The various ministries and commissions of the central government, local government, and enterprises have all used their accumulated funds solely for fixed assets investments. As to the increased circulating funds needed by the newly increased production capacity and the rise in commodity prices, the banks must be approached for their procurement. The actual operation of this system in recent years has shown that the sources of the banks' funds have not been sufficient to meet expanding needs.

With hundreds and thousands of units making fixed assets investments and without using their self-owned accumulated funds for circulating funds, the sources of fixed assets investment funds have greatly increased in volume. This has caused inflation of fixed assets investments.

At the same time, the scale of loans for fixed assets investments of the banks has grown greatly, thus expanding the sources of funds for fixed assets investments and helping the inflation of these investments. On the one hand, a large number of principals, including ministries and commissions of the central government, local governments, and enterprises, can make use of their limited self-owned funds, supported by the banks furnishing a portion of investment loans, and have been able to complete a large number of fruitful capital construction projects and technological transformation projects. On the other hand, the availability of loans from banks for fixed assets investments has enabled many scattered investment principals to undertake construction projects even under the condition of insufficient funds. This has accelerated the excessive growth in the number and volume of projects, in the scale of fixed assets investments.

The inflation mechanism of fixed assets investments doubly intensifies the shortage of circulating funds. First, the excessive supply sources of fixed assets investment funds elbows out the sources of circulating funds, thus causing a shortage of circulating funds. Second, inflation

of fixed assets investments bring about inflation in newly increased production capacity. This causes further inflation of the demand for circulating funds and causes a further shortage in circulating funds.

Under the conditions of an inability to rectify the inflation mechanism of fixed assets investment funds and to cut or transfer a portion of the sources of fixed assets investment funds, the only method to solve the problem of the shortage of circulating funds is to issue more banknotes and increase the scale of loans, thereby causing credit inflation, a rise in commodity prices, and excess distribution of national income. The actual situation in 1983 and 1984 was precisely this.

Credit inflation increases the supply of circulating funds and increases the strength of the existing production capacity of enterprises to fight for materials with fixed assets investments. The fight for materials between intermediate demand and inflated end demand will naturally widen the gap between the supply of materials and a rise in the prices of the means of production on the market, but at the same time will relatively satisfy the demands of existing production, increase effective supply, and indirectly reduce the actual scale of fixed assets investments.

The tightened money market in 1985 actually expanded the absolute amount and proportion of loans for fixed assets investments and, relatively speaking, reduced the growth scale of the supply of circulating funds, thereby greatly cutting down the strength of existing production in the fight for material with investments, helping materials to flow to the realm of investments, supporting investment inflation, and cutting down current production and supply.

Tightening the money market in 1985 did not achieve the original purpose of lessening the end demand, but it tightened the intermediate demand. Moreover, it failed to realize the rectification of the accumulation funds in the distribution mechanism between fixed assets investment and accumulation of circulating funds.

At the same time, inflation of investment helped the inflation of consumption funds, causing insufficiency in the supply of consumer goods and loss of control over the prices of consumer [goods] and a marginal rise in the savings rate of the residents.

If the existing mechanism and pattern of inflation of fixed assets investments and the mechanism and pattern of a shortage of circulating funds persist then not only will the condition of the shortage of circulating funds continue for a long time and become aggravated as time goes on, but the growth rate of current production and supply will continue to fall.

This will force us once again to take the old road of solving the shortage of circulating funds by means of credit inflation. However, due to the mechanism not yet being smoothed out, we shall then fall into the vicious cycle of inflation-retrenchment-renewed inflation. This will generate serious effects on the stable development of our economy and the smooth progress of the reform this year, next year, and thereafter.

Therefore, it is first essential for us to solve the problem of the shortage of circulating funds, and second, in solving the shortage of circulating funds, we must start by rectifying the mechanism, otherwise it will be difficult to banish subsequent ill effects.

Nevertheless, rectification of the mechanism and basically solving the problem of the shortage of circulating funds call for an intensive reform of the economic structure. This includes the following:

1. Pushing the reform of the foundation of microeconomy and strengthening the budgetary control of the enterprises so that the enterprises will truly become relatively independent producers of commodities and so that the enterprises will be upright in their conduct, can quickly respond to the state of the supply of funds and the interest rate thereon, and rationally arrange their own accumulated funds between fixed assets investments and accumulation of circulating funds. This includes a further demarcation of the property relations, relations of finance and taxes between the enterprises and the state, as well as promotion of the stock and share system and implementation of the bankruptcy law, and so forth.
2. Reforming the financial structure and setting up a financial or money market so that, in accordance with the supply and demand relations and changes in the interest rate, funds can flow rationally between fixed asset investments and circulating funds. This includes the running of banks as enterprises, regularizing the relationship between financial organs and the central bank, allowing the central bank to be relatively independent and autonomous in decisionmaking, coexistence of diversified forms of non-banking financial institutions and diversified forms of banking structures, enforcing floating interest rates, enforcing various kinds of credit measures and tools, and so forth.
3. Reforming the financial, planning, and investment structures. This includes further retrenchment and streamlining of the government organs, delegation of power to the lower levels, giving benefits to others, and, wherever possible, reducing the scale of mandatory plans, reforming the government's economic management functions, enforcement of the specialized management of state accumulation funds, and so on.

By means of these reforms, the government will greatly lessen its direct control of the banks and the production and management activities of the enterprises, change the management method of planned distribution of funds, and promote the rational flow of funds to different areas of demand in accordance with supply and demand relations. The banks and financial organs will, on the basis of the interest rate on long-term loans in the financial market, rationally distribute their funds between investment loans and loans for circulating funds; on the part of the enterprises and other investment principals, in accordance with the benefits of the use of funds, they will rationally allocate their accumulated funds between investment funds and circulating funds.

Naturally, we cannot expect to be able in the near future to fully realize all these reforms, achieve the anticipated results, and basically put in order the distribution mechanism of funds. However, in basically solving the existing problem of the shortage of circulating funds, we should not lose any opportunity to push ahead the relevant reforms, supplement them with various kinds of direct, indirect, administrative, or economic measures, and at the same time promote the rationalization of the supply structure, investment structure, and organizational structure of enterprises (lateral economic combines and enterprises' pools).

#### V. Possible Choices at the Moment

Judging from current conditions, we can apply only transitional measures in solving the problem of a shortage of circulating funds.

Transitional measures to solve the current problem of the shortage of circulating funds cover two questions: 1) What is the method to be used for raising circulating funds? 2) What is the method to be used to supplement the circulating funds to achieve the objectives of tightening the fixed asset investment funds, controlling the general demand, improving the general supply, and at the same time improving the demand structure, supply structure, investment structure, and organizational structure of the enterprises?

There are four principal ways of raising circulating funds: 1) Reduction of bank loans for fixed asset investments; 2) Issuance of more banknotes and increase of the gross scale of loans; 3) Increase of deposits and increase of loans, with the banks floating high interest-bearing debentures so as to absorb social funds; and 4) adoption of financial measures such as transferring the enterprises' loans, investments, shop fixtures funds and before tax profits to supplement the circulating funds.

It is not workable to rely on issuance of more banknotes to solve the problem of circulating funds.

Reduction of bank loans for fixed asset investments, particularly according a differential treatment between loans for major construction investments of the state or loans for major technological transformation projects and the usual run of investment loans, can reduce the end demand and benefit the adjustment of the fixed assets investments of whole society, with the advantages being extremely obvious. But since this touches on a wide area and has excessive effects on the existing plan and the whole investment programming, it is difficult to enforce.

The financial measure calls for the investment principals to eke out from their accumulated funds a portion of the investment funds for use in the accumulation of circulating funds. It also represents a systematic method of controlling the end demand and a long-range safety policy, but the financial pressure is too heavy and the state will have to show a strong determination and enforce the measure gradually.

At present, the workable method seems to be seeking more deposits and granting more loans, with the banks floating high interest debentures to absorb and thus enliven society's existing holdings of funds. In reality, this measure is still expanding the credit scale and general demand and cannot directly tighten the fixed assets investment funds. Because it does not call for the issuance of more banknotes and does not enlarge the gross volume of social funds, it can eliminate the chances of future inflation and lay the foundation for transition to financial measures and controlling in the system the general demand and putting in order the relationship between fixed assets investments and accumulation of circulating funds.

After the raising of funds, the methods of supplementing the circulating funds are mainly as follows:

1. Credit and loan funds of banks: 1) Breaking up the target for transmission to the lower levels, leaving it to the specialized banks and lower-level banks to take charge of the granting of loans. This is an old method, and it is difficult to realize the structural policy; 2) starting the system of discounting of bills and rediscount businesses for major industries, trades, and enterprises. This is a new method and is not difficult to operate. It can support the development of major industries and trades and major enterprises, improve the supply structure, and strengthen the financial strength of major enterprises, enhance their drawing power and organizing power vis-a-vis other enterprises, and promote the formation of enterprise combines and enterprise pools and syndicates; 3) granting loans at high interest rates for excess circulating funds, including fixing the limits that enterprises may exceed their self-owned circulating funds, and enforcing high interest rates on bank loans to supplement deficient portions of circulating funds, so as to urge the enterprises to use their own funds to supplement circulating funds and to practice thrift in the use of circulating funds and cut down the sources of fixed asset investment funds.
2. Funds of a financial nature: 1) Whoever invests will provide the shop fixtures funds, with differential requirements regarding the ratio of self provided shop fixtures funds for the state's major construction projects, technological transformation projects, and ordinary projects; 2) allowing the enterprises to use before-tax profits to supplement self-owned circulating funds up to a stipulated percentage.

Summing up, it may be said that to solve the problem of a shortage of circulating funds at present, it is more suitable to carry out the fund-raising scheme based principally on seeking more deposits and more loans, with the banks floating debentures at high interest rates and the enterprises using before-tax profits to supplement their own circulating funds. We can also use the supplementary measures of principally starting the practices of discounting of bills, rediscounts, and granting loans at high interest rates for excess circulating funds. Eventually, we can gradually effect a transition to the measures of a financial nature and truly carry out the above second line of thought on solving the problem of the shortage of circulating funds.

ECONOMIC MANAGEMENT

SEMINAR STUDIES EXPERIMENTAL AREA'S NEW ECONOMIC SYSTEM

HK241029 Beijing CHINA DAILY in English 24 Jun 86 p 2

[Article by staff reporter Shi Zai]

[Text] Hangzhou--A seminar was held in Wenzhou, Zheiland Province, last week to study the new economic system emerging in Wenzhou's rural areas.

"Some theoretical and experimental work must be done to study the Wenzhou economic system to direct the national economic reforms," Premier Zhao Ziyang said after his inspection tour of Wenzhou last year.

More than 100 economists from the central and eight provincial and municipal governments attended the six-day seminar and 41 papers were presented.

Great changes have taken place since 1979, when the rural Wenzhou was chosen as an experimental area to carry out full-scale economic reforms, Mayor Lu Shengliang told CHINA DAILY.

More than half of Wenzhou's rural labour force (about 800,000 people) has transferred from land work to individual businesses, commerce, transport and the catering trade--most of them family businesses. As a result, municipal income in 1985 increased by 133 percent over 1980 and per capita income went up to 447 yuan, compared with only 55 yuan in 1978.

Eighty percent of the families in Chaotouzhen, one of the towns in the area, have assets of more than 10,000 yuan each and 70 percent of families have built new houses with an average floor space of 101 square metres.

The make-up of Wenzhou's local economy is changing greatly. In 1985 collective enterprises contributed 54 percent to the area's total output and individual ones 27.5 percent. In the value of goods transported, collective enterprises made up 30 percent and individual firms 41 percent. In retail trade turnover, the former held 27 percent and the latter 26.5 percent.

Economic experts from Shanghai Social Science Academy said at the seminar that in Wenzhou formerly poor farmers were getting richer, the level of surplus labour was falling and funds for further development were piling up.

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CSO: 4020/366

ECONOMIC MANAGEMENT

HUBEI: HAO JIANXIU ON EARNING FOREIGN EXCHANGE

HK240731 Wuhan Hubei Provincial Service in Mandarin 1000 GMT 22 Jun 86

[Excerpts] From 6 to 20 June, Hao Jianxiu, secretary of the CPC Central Committee Secretariat inspected some 20 factories and enterprises in Wuhan City, Shashi City, and Jingzhou Prefecture in our province. He consistently stressed that the key to creating a new situation in earning foreign exchange from exports lies in creating conditions in various respects and developing competitive new products.

He demanded that enterprises must have a technological force to develop new products. We cannot develop new products without design. When enterprises have a relatively strong capacity for design, they can meet the needs of the constantly changing markets at home and abroad.

In his tour of inspection, Hao Jianxiu saw that many of our province's export products had been produced by old equipment from the 1950's and 1960's. He believed that these old enterprises can remain productive for a long period of time because the quality of their workers is good, their management is good, and their technological force is strong. If their technological transformation can keep pace with the development, their strength will be redoubled.

Hao Jianxiu said: Technological transformation is a necessary way for an enterprise to subsist and develop. It is essential to take the road of technological transformation and expanding reproduction. Hao Jianxiu pointed out: In the course of technological transformation, it is imperative to spend a small amount of foreign exchange to import key equipment. However, after importing it, we must immediately organize forces to digest and absorb it.

On 20 June, in the Wuchang Donghu Hotel, where birds were singing and flowers were giving their fragrance, Hao Jianxiu, secretary of the Secretariat of the CPC Central Committee, cordially received well-known model workers, including (Zhu Jiu), (Chen Ai's), (Xia Juhua), (Gong Chengxiao), (Yao Funian), (Zhao Zisun), (Liu Tonghui), (Wu Zhongqing), (Chen Hanxian), (Yao Xiaoguo), (Li Wangying), and (Chen Qifa).

Comrade Hao Jianxiu, a national and well-known model worker of the 1950's, has cherished a deep affection for model workers. He especially wore a brand-new suit and talked cordially with the model workers, holding their hands in his.

He said: In the past, we model workers, worked hard. Now, we are opening up a new path and advancing. You have worked hard for the four modernizations and you are commendable. The whole society must respect the comrades who have made contributions and all quarters must show concern for and cherish them. We must show concern not only for their work but also for their livelihood and study and take care of their health.

In conclusion, Comrade Hao Jianxiu hoped earnestly that the model workers would score still greater achievements in their future work.

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ECONOMIC MANAGEMENT

FUJIAN DEPARTMENTS, COLLEGES ASSIST COUNTIES

OW221114 Fuzhou Fujian Provincial Service in Mandarin 1030 GMT 22 Jun 86

[Text] The Fujian Provincial Party Committee and Provincial Government recently decided that the various provincial departments and institutes of higher learning must each foster cooperation ties with a county.

The General Office of the Provincial Party Committee issued a circular to this effect to the various provincial departments and various localities. The circular pointed out: Such cooperation must contribute to mutual support and business expansion. The period of cooperation is presently fixed at 3 years. During the period of cooperation, the various provincial departments must send cadres to the townships, villages, and households of the related counties to conduct investigation and study and help solve practical problems, as well as to promptly report on the local situation and sum up the experiences gained.

The circular set forth the main tasks of the provincial departments and institutes of higher learning in forging cooperation with the counties. The main tasks are as follows:

1. To oversee and supervise the counties in the implementation of the party's principles and policies, and to actively and responsibly support the counties in developing the economy.
2. To support the counties in the survey of resources and the evaluation of construction projects, and to assist them in drawing up plans for overcoming poverty and for economic development.
3. To bring into play the superiority of the provincial departments and institutes of higher learning in having wider access to information and more contact with various quarters, and to assist the counties in developing lateral economic ties and promoting diverse modes of economic and technical cooperation through various channels.
4. To improve work related to cooperation with counties, create good models and experiences in this work, and promptly popularize the good experiences among other units.

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ECONOMIC MANAGEMENT

HEBEI'S XING CHONGZHI ATTENDS FORUM ON LATERAL COOPERATION

SK230550 Shijiazhung HEBEI RIBAO in Chinese 3 Jun 86 p 1

[Excerpts] From 27 May to 1 June, the provincial CPC Committee and government held a forum in Langfang City on the lateral economic cooperation of the areas around Beijing and Tianjin. The participants summed up and exchanged experiences in developing lateral economic cooperation in the past few years, and discussed in particular the guiding ideology, policies, and measures for further expanding economic cooperation with Beijing, Tianjin, and other areas. Through the exchange of experiences and discussion, they enhanced their understanding and their confidence in making economic cooperation successful. They held: The guidelines of this forum are not only adaptable to the areas of our province which surround Beijing and Tianjin but also are significant in guiding other areas of our province. The implementation of these guidelines will certainly bring our province's lateral economic cooperation up to a new level.

Attending the forum were responsible comrades of the prefectures and cities of the province, responsible comrades of some counties around Beijing and Tianjin, and responsible comrades of relevant provincial departments.

Also attending were leading comrades of the provincial CPC Committee, Advisory Commission, and government, including Xing Chongzhi, Yang Zejiang, Song Shuhua, and Zhang Runsheng. They participated in the discussions on lateral economic cooperation from the beginning to the end. At the conclusion of the forum, Comrade Xing Chongzhi delivered a speech. (Excerpts of the speech are published separately)

The participants to the forum held unanimously: The areas surrounding Beijing and Tianjin occupy an important strategic position. It is totally possible for these areas to give full rein to their advantage, actively expand lateral cooperation with Beijing and Tianjin, achieve prosperity ahead of others, and become economically developed areas of our province. The guiding ideology of "actively developing mountainous, coastal, and upland areas and, at the same time, placing the focus of our province's development on the areas around Beijing and Tianjin, and enabling them to become economically developed areas ahead of others" put forward by the provincial CPC Committee is commensurate not only with the guidelines of the central authorities but also with the actual conditions of our province. That the areas around Beijing and Tianjin achieve prosperity ahead of others will serve as a very good spur to the economic development of other areas of our province.

During the forum, the participants also held conscientious discussions on a series of relevant policies on technology and personnel imports, collection of credit and funds, and taxation on the basis of the actual conditions of our province. They held: To make lateral economic cooperation successful, it is necessary, first, to delegate power to lower levels and, second, grant preferential policies to other areas. It is necessary to change the outdated management system and regulating methods within the framework of the policies on macroeconomic control, to reform the management system of setting barriers between different regions and departments according to administrative systems, and to ensure that cooperation and reform promote each other. A leading comrade of a relevant provincial department said that efforts should be made to enthusiastically support lateral cooperation, and give guidance, make coordination, and render service successfully, and that pertinent departments should put forward some flexible measures for delegating power to lower levels and opening to the outside on the premise that the state's general policies and principles are not violated.

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CSO: 4006/1147

ECONOMIC MANAGEMENT

PAPER DISCUSSES REGIONAL ECONOMIC POLICIES

HK120435 Beijing GUANGMING RIBAO in Chinese 24 May 86 p 3

[Article by Dai Yulin [2071 3768 2651]: "Macroeconomic Control and Regional Policies"]

[Text] When macroscopic coordination is applied in the economic life of a big country whose productive forces differ from place to place, great attention must be paid to the specific natural, historical, economic and social situations in the various regions of the country. Therefore, it is of great significance to understand regions as one of the levels in the macroeconomic coordination structure and bring into full play the regional role in macroeconomic coordination.

The Regional Role in Macroeconomic Coordination

Regional economy is a kind of local economy. It is an economic combine formed by the unity of production, distribution, exchange and consumption in a certain area. Generally speaking, the regional economy has four characteristics: First, it is relatively independent in character. Because the natural conditions and natural resources vary from place to place, and because of the different levels of economic development in different regions and different social customs and habits in different places, the methods of economic operation and organization in various regions vary from place to place so that they each form a relatively independent entity. Second, it is comprehensive in character. Because a relatively independent regional economy itself contains the various aspects of social reproduction, such as population, education, culture, science and technology, markets, enterprises, communications and transportation, politics, religions and so on, it certainly has a comprehensive character. Third, it has various levels. Regions are a concept of space. A region is formed by different levels. Generally speaking, the regional economy is the economic network centered on cities. As far as our country is concerned, the different regions have a series of big, medium-sized, and small cities with different scopes and levels, that is to say, every region is actually composed of such levels as big areas, medium-sized areas and small areas. Fourth is its open character. The regional economy always takes part in the unified market of the whole country and the process of the entire social reproduction as a component part. If a region consciously or unconsciously stagnates in the closed kingdom of natural economy, it will

never be able to free its economy from backwardness. In fact, no region can be in a closed state for a long time. Commodities with lower prices but better quality can destroy any strong fortresses. This is the inexorable law of economic development.

From the above-mentioned characteristics of the regional economy, we can easily see that the regional role in macroeconomic coordination is mainly manifested in the following two aspects: First, the role of coordination, that is to coordinate the operation of the local system with that of the systems of other regions and with that of the branch systems within the local system according to the demand of the coordinated development of the national economy; second, the role of planning, that is to plan the structure of natural resources and the structure of social economy in the local area so as to make rational use of the natural resources and perfect the structure of social economy under the guidance of territorial planning and the long-term strategy of the development of the national economy. However, as far as the present situation of our country is concerned, these two important regional roles in the macroeconomic coordination are far from being brought into full play. The fundamental reason is that the relevant economic structures of our country are irrational. Therefore, in order to bring the regional role in the macroeconomic coordination into full play, we must carry out the reforms of the relevant economic structures.

#### Correctly Dealing With the Relationship Between the State and the Regions

When viewed from the angle of economic coordination, regions are a middle level in the economic structure of the country. The difference between regional economic coordination and state economic coordination is that their scopes of coordination are different, while the links between regional economic coordination and state economic coordination are that the regional coordination is the further manifestation of the state coordination in the local areas. With this knowledge, I think that four transformations should be carried out in the relationship between the state and the regions:

First, the transformation from the administrative-order pattern into the economic-coordination pattern. At present, the economic relationship between the state and the regions is still that the state gives orders to the regions and the regions carry out their respective regional economic activities under the state instructions. This mandatory relationship has not only fettered the regions but also increased the burden of the state. The serious consequences are that both the state and the regions cannot give play to their respective roles of coordination. This situation should be changed as soon as possible. The general direction of the change should be: The state should first put forward a target which the regions can refer to so that the various regions are aware of the intention of the state, and then adopt a series of economic policies to enable the regional economic activities to consciously enter the state's orbit.

Second, the transformation from the short-term balance pattern into the medium or long-term balance pattern. For a long time, both the state economic balance and the regional economic balance have mainly relied on the annual

plan, thus artificially destroying the continuity and entity of economic activities. So, in the future, both the state and regional economic plans should turn the annually planned balance into the rotational medium or long-term balance and leave the short-term balance to the cities and enterprises. This will be conducive to the coordinated development of the regional economy.

Third, the transformation from the unfixed coordination pattern. In the past, the coordination of the state and regional economic relations mainly depended on flexibility and changeable measures. For example, the financial relationship between the state and the regions was not a fixed tax revenue system. It was characterized by the practice of sharing the total amount of taxes, an unfixed method which was changed every year. This method could hardly enable the regions to make long-term plans for their economic and social developments and enable the state financial income to maintain its stabilization and because of such an unfixed method, sometimes, the state and the regions had to bargain with each other. So, on the basis of summing up the experiences and drawing a lesson from the substitution of tax payments for profit delivery, in the future, we should change the unfixed method of coordinating the economic relationship between the state and the regions into a fixed one so as to maintain a stable relationship between the state and the regions for a relatively long period of time and promote the common prosperity of both the state economy and the regional economy.

Fourth, the transformation from the speed examination system into the economic result examination system. Until now, the state's appraisal and examination of the regional economic activities were basically centered on "speed target." This method of examination puts too much stress on speed rather than quality in the regional economic development, thus intensifying such contradictions as various regions vying with one another for investment, projects, materials and so on. Therefore, the state should change the speed examination system into the economic result examination system and establish a scientific and complete target system.

#### To Establish a New Type of Regional Economic Coordination Mechanism

In order to strengthen the regional role in the macroeconomic coordination, we must smash the present regional economic management structure and establish a new type of regional economic coordination mechanism.

First, to establish a new type of coordination system. Under the present structure, regions mainly rely on the mandate of the annual plan to coordinate their production and construction activities. Practice has proved that such a method of coordination has constrained the vitality of cities and enterprises. Therefore, we should consider reducing the scope of the mandatory plan and gradually enlarging the scope of the guidance plan. In the meantime, we should also carry out the reform of the financial distribution system. Besides these, we should also further establish an open commodity circulation structure with more channels and fewer links. However, the contents of the new coordination system not only consist of the three aspects of planning, finance, and circulation but also consist of the coordination between industry and agriculture, the coordination between the input of investment and the

output of investment, the coordination between the import of technology and the export of technology, the coordination within the existing technological structure, the coordination between the leading trades and the general trades, the coordination between economic activities and the ecosystem, and so on.

Second, to establish a new type of planning system. As far as the present situations in various regions are concerned, because of the lack of a unified plan, the various construction projects in each region very often cannot coordinate with one another and form a unified whole. In some regions, there are even the same kinds of enterprises under the jurisdiction of the province, city and prefecture respectively, which is an abnormal phenomenon. The newly-built big and medium-sized construction projects, whose locations the regions and cities have no right to decide, often affect the rational layout of industries and cities. Because of the lack of the cooperative enterprises, electric power, communication facilities, water supply, drainage system, urban services and so on, some construction projects cannot go into normal production after being completed. That some regions blindly develop industry disregarding the ecological balance has caused the decline of water quality, air pollution, river pollution and so on. So, it is imperative for us to strengthen the regional planning work and establish a new type of planning system. It is also necessary for all the regions to establish and perfect overall planning organizations and various kinds of professional planning organizations as well as the planning contingents in order to carry out the regional planning work step by step in a planned way. In the meantime, the various regions should make feasible regulations or laws concerning regional planning so as to enable all the economic and construction activities in the various regions to conform with the demands of their respective regional plans.

Third, to establish a new type of supervisory system. The new types of coordination system and planning system objectively demand the establishment of a multilevel supervisory system in order to guarantee the standardization of the major regional behaviors, otherwise it will be difficult for us to carry out regional coordination and implement regional plans. According to the characteristics of the regional economy, the general structure of the supervisory system of the regional economy is: A supervisory organization composed of such departments as planning, programming, statistics, auditing, banking and so on is to be established at the regional level and similar supervisory organizations are also to be established in the cities so as to form a multi-level, network-type supervisory system. The main functions of these supervisory organizations are: to examine and investigate whether there are any malpractices in the various trades; and to frequently reflect information to the decisionmaking departments. The supervisory organizations have the right to apply economic sanctions against or bring a lawsuit against the various trades which are engaged in serious malpractices. Only by doing things in this way can we bring into full play the regional economic role in the macroeconomic coordination.

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CSO: 4006/1147

ECONOMIC MANAGEMENT

HUNAN, SHANGHAI AGREE ON ECONOMIC COOPERATION TIES

HK180243 Changsha Hunan Provincial Service in Mandarin 2200 GMT 17 Jun 86

[Excerpts] The Hunan provincial economic and technological cooperation delegation has held talks at various levels since its arrival in Shanghai on 9 June. On 17 June, the delegation signed with Shanghai the summary of Hunan-Shanghai discussions on stepping up economic and technological cooperation. The delegation also signed 52 agreements and contracts and 95 letters of intention.

The summary says: The two sides have decided to make joint efforts to exploit Hunan's resources. Shanghai will supply part of the investment for expanding production at the Xiangtan manganese mine. The investment is to be repaid in manganese products. Shanghai will also cooperate with Hunan in exploiting the rare earth resources of (Putuoshan) at Jianghua and developing their products.

The two sides agreed to cooperate in the production of high quality brand products. The Shanghai side agreed to the Hunan television set plant's application to join the Jinxing television set economic combine to develop China's own production of elements and parts. Priority will be given to Hunan in transferring the results of such development. The Hunan computer plant will join with the Shanghai computer plant in microcomputer systems production.

The two sides agreed to cooperate in developing China's own production of automobiles, tractors, and motorcycles. They will also develop new techniques and product varieties in natural fibers, cotton, chemical fibers, and so on.

Hunan will supply Shanghai with a certain amount of agricultural and sideline products each year, while Shanghai will supply Hunan with a certain amount of light industry brand products. The two sides will cooperate in opening up the science and technology market and will regularly exchange science and technology information and management experiences. Shanghai will transfer some technology to Hunan, and the two sides will cooperate closely in absorbing and digesting imported technology and in technical innovations.

Shanghai will provide Hunan with managers for a number of large and medium plants. The two sides agreed to further expand the scale of construction contracts. They also agreed to further develop waterway transport.

The two sides decided to set up hotline contacts under provincial and municipal leadership.

ECONOMIC MANAGEMENT

NEW ECONOMIC MONITORING SYSTEM ESTABLISHED

OW220915 Beijing XINHUA Domestic Service in Chinese 1358 GMT 19 Jun 86

[Article by reporter Ge Daxing]

[Excerpt] Beijing, 19 Jun (XINHUA)--China has started to establish and perfect a system for monitoring macroeconomic activities on a regular basis. This system was established in order to meet the reform needs of the economic structure and the development of the commodity economy, to assist the economic management departments at various levels to gradually revitalize enterprises, and to take control of the overall economic situation.

In accordance with the provisional regulations governing the establishment of this system recently drawn up by the State Economic Commission, the State Planning Commission, and the State Statistical Bureau, economic activities and development trends to be monitored include the scale of production and construction, the consumption of funds, revenues and expenditures, bank credit loans, foreign trade, foreign exchange, transportation, materials supply, markets, and commodity prices. These various indicators would generally be monitored on a monthly or seasonal basis. If necessary, such monitoring could be carried out continuously.

To ease the task of monitoring macroeconomic activities, the State Economic Commission, the State Planning Commission, and the State Statistical Bureau would be responsible for monitoring on a national level. Each season, they would then organize the relevant departments and localities to analyze the economic situation in light of these results. Other concerned departments could monitor specific areas and make brief analyses in relation to the work under their jurisdiction. The various local departments would then submit monthly analyses to higher authorities on the important aspects and problems of the local economy. The monitoring results would be promptly reported to the State Council, as well as exchanged between the relevant departments and localities. Such results should provide the state and the various economic departments a basis for analyzing the situation and making policy decisions.

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CSO: 4006/1147

ECONOMIC MANAGEMENT

SHENYANG PRAISED FOR BANKRUPTCY EXPERIMENT

OW240821 Beijing XINHUA in English 0741 GMT 24 Jun 86

[Text] Beijing, June 24 (XINHUA)--The practice of closing down bankrupt collective enterprises, which is being tried out in Shenyang, is a bold experiment in China's economic reforms, said today's "PEOPLE'S DAILY."

The Liaoning provincial capital of Shenyang has provided valuable experience for the formulation of China's draft enterprise bankruptcy law, which is now being considered by the National People's Congress Standing Committee, the newspaper quoted delegates to a Shenyang symposium as saying.

The draft law, aimed at spurring businesses to improve management, includes sections on conditions for declaring bankruptcy, liquidation of assets, procedures for handling bankruptcy cases and compensation for employees of bankrupt enterprises.

The symposium on the theory of enterprise bankruptcy, held earlier this month, was sponsored by China's enterprise bankruptcy law drafting team, the Liaoning Provincial Academy of Social Sciences and Shenyang City Council.

Yuan Mu, deputy secretary general of the finance and economy group under the State Council, told the symposium: "The formulation of the bankruptcy law is a requirement of the socialist commodity economy, and part of the continuing reform of the economic structure."

Economist Jiang Yiwei said the draft law would give enterprises responsibility for both profits and losses. Their authority would be combined with their responsibility.

"Authority will give businesses impetus, and responsibility will put pressure on them, making it possible for them to be full of vitality," he said.

Hu Baoyu, vice-president of the Shenyang Trade Union Council, said that bankruptcy existed in both socialist and capitalist societies, "but there is an essential difference in the handling procedure and result."

He explained: "When a firm in a capitalist country goes bankrupt, the owner loses everything and workers are thrown out of jobs.

"But when a firm in China goes bankrupt, we will do everything in our power to help it survive.

"If nothing can be done to bring a bankrupt firm back into operation, the workers' labor rights will be protected by law."

This meant the authorities would give them jobs elsewhere, he added.

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CSO: 4020/366

ECONOMIC MANAGEMENT

LIAONING ENTERPRISES FORM COOPERATIVE UNITS

OW120559 Beijing XINHUA in English 0540 GMT 12 Jun 86

[Text] Shenyang, June 12 (XINHUA)--Making more money without adding much investment was no hard job for the industrial enterprises in the northeast Chinese province of Liaoning.

By breaking the administrative barriers and cooperating with one another, about 40,000 enterprises in Liaoning Province have raised their output value by more than 1,300 million yuan in the past 2 years.

Economic development in Liaoning, a major Chinese base for heavy industry, was seriously hampered by the old managerial system in which enterprises could not communicate with one another except through their official departments.

This old system caused many unnecessary losses to factories because the managers were often too late to realize they had been producing the same kinds of goods which had a limited market demand.

Many enterprises also found it difficult to raise enough money to expand production because they were supposed to be responsible for every part of the finished products.

Since 1984, the provincial government began to encourage the enterprises to cooperate with each other in the hope of invigorating the local economy.

A typical cooperative unit usually includes a large-scale industrial enterprise, producing, for example, the main part of a machine, and dozens of small factories providing semi-finished products, auxiliary parts or raw materials.

These units were founded on a reciprocal basis and all parties, before forming a unit, would sign contracts concerning terms of investment, personnel, management and profit and loss.

As a result of the cooperation, many famous-brand goods producers have been able to raise quality and quantity, and better satisfy the market need.

For example, Shenyang, the provincial capital, has greatly expanded its capacity to produce machine-tools, automobiles, batteries and boilers.

According to the provincial government, 975 enterprises have all made "remarkable" profits since joining 108 such cooperative units.

ECONOMIC MANAGEMENT

LATERAL TIES HELP SICHUAN MOTORCYCLE COMBINE

OW300602 Beijing XINHUA in English 0549 GMT 30 Jun 86

[Text] Chongqing, June 30 (XINHUA)--Since the Jialing Motorcycle Combine was set up in 1980, its production capacity has been expanded and quality raised, according to a manager of the combine.

He said it now has an annual production capacity of 350,000 motorcycles, and their quality can match Japan's Honda machines after importing the latter company's production technology.

The Jialing Motorcycle Combine, with its assembly factory in Chongqing, Sichuan Province, has become the biggest motorcycle producer in China, the manager said.

The "Jialing" brand motorcycle is a product of lateral economic and technological cooperation among enterprises, a local official said.

The combine now embraces 220 factories in different regions and of different departments; there were only 11 when it was set up.

The central government is encouraging enterprises to promote economic and technological ties among themselves.

The Jialing machinery plant in Chongqing, now specializing in motorcycle assembly, was a military enterprise founded 40 years ago. Five years ago, when China allowed some military enterprises to produce civilian goods, the plant began manufacturing light motorcycles.

Hao Zhenkun, the plant's director, said his plant then did not have enough machinery; in 1980, it only made 2,500 motorcycles.

Later, the plant, together with another 10 military and civilian enterprises, formed the Jialing Motorcycle Combine.

Last year, production cost was reduced by 48 percent.

The retail price of a Jialing motorcycle is 900 yuan in Chongqing, and the machines are popular among peasants who use them for transporting produce to markets.

The combine has set up 1,000 maintenance centers for the convenience of purchasers throughout the country.

ECONOMIC MANAGEMENT

QINGHAI CPC BRIEFS NON-PARTY FIGURES ON ECONOMIC ZONING

HK260231 Xining Qinghai Provincial Service in Mandarin 2230 GMT 25 Jun 86

[Excerpts] The Qinghai Provincial CPC Committee held its second-quarterly meeting of non-party figures on 25 June to brief them on economic investigations in Haixi, Xining, and Haidong, and on the province's economic development from January to May this year. Present were party and government leaders Yin Kesheng, Huanjuecailang, Hai Yingxuan, Lu Shengdao, Shen Ling, and Bian Yaowu, and responsible persons of democratic parties and the industry and commerce federation, together with non-party intellectuals, experts, and scholars.

Comrade Lu Shengdao said: Since the second half of last year, in accordance with the province's natural conditions and economic foundation, the provincial CPC Committee has divided the province into five economic zones: the eastern agricultural zone, Xining industrial zone, Caidam new industrial and mining zone, the pastoral zone around the Koko Nor, and the high plateau pastoral zone in southern Qinghai. It has applied the principle of acting in light of local conditions to develop zonal economy. The provincial CPC Committee envisions focusing efforts on development in the Haidong and Xining zones along the Lanzhou-Qinghai railroad and the Caidam zone along the Qinghai-Xizang railroad during the Seventh 5-Year Plan. Development will then gradually spread out to the two wings. The provincial CPC Committee and government have therefore decided to carry out penetrating investigations and studies of the economy and development of these three zones this year. Specific ways for developing their economy will then be formulated. Since April this year, Yin Kesheng, Song Ruixiang, and Liu Feng have led teams to Haixi, Xining, and Haidong to investigate.

Comrade Bian Yaowu spoke on the province's January-May performance in industry, agriculture, animal husbandry, finance and trade, and capital construction, and so on the main problems.

Speeches were then made by the participants. They put forward their own views on developing Qinghai's economy and on problems in the province's work.

Comrade Yin Kesheng spoke before the conclusion of the meeting. He fully affirmed the provincial CPC Committee's method of holding periodical briefing sessions for non-party figures.

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CSO: 4006/1147

ECONOMIC MANAGEMENT

XINJIANG: REGULATIONS ON STRENGTHENING QUALITY CONTROL

HK270335 Urumqi Xinjiang Regional Service in Mandarin 1200 GMT 25 Jun 86

[Excerpts] The regional People's Government recently promulgated regulations on strengthening quality control and improving product quality, demanding that all prefectures, departments, and enterprises take economic, technical, administrative, and legal measures to guarantee that a new breakthrough in the quality of industrial products and in the level of quality control in our region will be made during the Seventh 5-Year Plan period. The regulations consist of 10 articles:

1. It is necessary to correct the guiding ideology of work and to overcome the ideology that still exists of attaching importance to speed but disregarding economic results, laying stress on quantity but disregarding quality, attaching importance to extension but disregarding intension, and laying stress on production but disregarding management. It is essential always to put quality above everything else.
2. It is imperative to formulate a target and to work hard to raise product quality to a new level.
3. The system of quality inspection must be established and put on a sound basis.
4. It is necessary to strengthen leadership over quality control, to set up quality management organs, and to put them on a sound basis. The quality management personnel of an enterprise must account for three per thousand of the total number of workers, and the quality inspection personnel must not be less than 3 percent of the total number of workers.
5. It is essential to strengthen supervision and inspection of product quality and to seriously enforce the law and regulations concerning quality.
6. It is imperative to extensively carry out all-round quality control and to conduct regular education in quality control for workers.
7. It is necessary to really strengthen technological fundamental work and to seriously ensure five not-allows: products that do not measure up to standard are not allowed to leave factories; the output and output value of products not

up to standard are not allowed to be calculated; raw materials and accessories that are not up to standard are not allowed to be used or installed; products whose inferior quality has been published are not allowed to be produced and sold; products whose quality standard has not been set and for which a quality inspection organ has not been set up are not allowed to be produced.

8. It is essential to firmly grasp technological progress and to speed up improvement of product quality.

9. It is imperative to work out a method of reward and punishment and to integrate quality with the interests of an enterprise.

10. All departments must support and help enterprises improve product quality. They must give priority to the supply of materials and energy, issuing loans for technological transformation, and procurement of products to enterprises that produce products of superior quality and export products.

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CSO: 4006/1147

ECONOMIC MANAGEMENT

BRIEFS

ECONOMIC COORDINATION COMMITTEE--Nanjing, June 21 (XINHUA)--An economic coordination committee representing 16 cities and prefectures in eastern China was set up in this capital of Jiangsu Province today. Mayors and prefecture commissioners attending today's inaugural meeting agreed to forge economic links between their areas, and to use each other's local advantages to promote mutual prosperity. By the end of May, China had set up 20 transregional economic cooperation organizations to break down economic barriers, exploit local resources more effectively, promote productivity and encourage enterprise cooperation. The 16 cities and prefectures are Nanjing, Zhenjiang and Yangzhou in Jiangsu Province, Hefei, Wuhu, Maanshan, Tongling, Anqing, Huangshan cities and Chuxian, Luan, Chaohu, Xuancheng, Huizhou and Anqing prefectures in Anhui Province, and Jiujiang City in Jiangxi Province. Covering an area of 140,000 square kilometers, they have a total population of 50.41 million, and generate total industrial and agricultural output value of 62.8 billion yuan a year.

[Text] [Beijing XINHUA in English 1331 GMT 21 Jun 86 OW]/12766

RESEARCH INSTITUTES AID ENTERPRISES--Beijing, June 21 (XINHUA)--One hundred major enterprises are being encouraged to develop technology by cooperating with research institutes and universities attached to the Chinese Academy of Sciences, today's "ECONOMIC DAILY" reported. The government will support them by reducing or waiving taxes on new products and cutting tariffs on imported sampling machines or products, State Economic Commission Vice-Minister Lin Zongtang was quoted as saying. Cooperative schemes between industry and scientific institutes will be sponsored by the State Economic Commission, the State Education Commission and the Chinese Academy of Sciences. They will be concentrated on developing new technology and products, upgrading product quality, reducing energy consumption, improving economic returns and boosting exports. Cooperation is also expected to help industry modernize, absorb and digest imported new technology, train personnel and streamline management. Lin called on local economic commission offices to promote cooperative schemes and draw up specific programs. [Text] [Beijing XINHUA in English 0552 GMT 21 Jun 86 OW]/12766

MODERNIZATION OF EQUIPMENT MANAGEMENT URGED--Beijing, June 30 (XINHUA)--China should promote the modernization of equipment management to provide a "good material and technical guarantee" for its sustained economic growth over the next 5 years, a senior official said here today. "The modernization of equipment management is a major part of the modernization of enterprise management,"

Yuan Baohua, vice-minister of the State Economic Commission, told a national conference on equipment management and maintenance, now in session here. He urged businesses to pay as much attention to equipment management as to quality control by economic, administrative and legal means. "Only by constantly improving equipment, can we raise product quality, reduce consumption of energy and raw materials, and ensure safety in production," he noted. According to the conference, 85 percent of equipment in industrial enterprises was in good order between 1981 and 1985. Delegates agreed that equipment management and maintenance now can no longer keep pace with the country's fast-growing economy, and this sector remains a "weak link" in enterprise management. During China's Seventh 5-Year Plan, beginning this year, enterprises will modernize equipment management by adopting new technology such as numerical control, digital display and static pressure, according to Lin Zongtang, who is also a vice-minister of the State Economic Commission. Lin said, "Our modernization drive will also involve improvement of management regulations, the introduction of the initiative-based responsibility system, tightened control of funds for equipment overhaul and training of personnel." [Text] [Beijing XINHUA in English 1445 GMT 30 Jun 86 OW]/12766

HEBEI'S XING CHONGZHI ATTENDS RALLY--Today, the Shijiazhuang City CPC Committee and the city government held a rally of 8,000 people to relay and implement the guidelines of the forum on developing lateral economic cooperation in areas around Beijing and Tianjin held in Langfang by the provincial CPC Committee and government, and to put forward 10 issues on further deepening reform and economic construction in the city. At the rally, Jia Ran, secretary of the city CPC Committee, relayed the speech given by Comrade Xing Chongzhi at the forum on developing lateral economic cooperation in areas around Beijing and Tianjin. Xing Chongzhi, secretary of the provincial CPC Committee, gave a speech at the rally. He said: In recent years Shijiazhuang City has realistically done much creative work and scored pronounced achievements in economic structural reform and in the development of lateral economic cooperation. He expressed the hope that during the Seventh 5-Year Plan, Shijiazhuang City will continue to work creatively, to solve the new problems in reform, to advance reform unceasingly, and to play an active role in promoting the province's reform and economic construction. [Excerpts] [Shijiazhuang HEBEI RIBAO in Chinese 11 Jun 86 p 1 SK]/12766

TIANJIN CADRES' MEETING ON ECONOMIC TASKS--On the morning of 26 June, the municipal CPC Committee and the municipal People's Government held a meeting of leading cadres at the district-county-bureau level in the cadres' club, urging the broad masses of party-member cadres, staff members, and workers throughout the municipality to go into action immediately to seize the opportunity, to enhance their vigor, and to make persistent efforts to fulfill the economic tasks this year, particularly fulfilling the task of increasing incomes and curtailing expenses in order to score better achievements in various fields in the later half of this year. After analyzing the municipal economic situation, the meeting put forward five measures for increasing incomes and curtailing expenses, such as grasping production increases, promoting sales, enhancing contract systems, intensifying piece wages systems, and bringing expenses under control. In referring to the issue concerning leadership and personnel affairs, the meeting urged the departments and units to further enhance the ideology of taking economic work as a central task, serving the units at grassroot levels, and of creating something new. Meanwhile, the meeting urged them to regard the work concerning personnel affairs as an important matter. Efforts should be made to adopt ways and means to straighten out personnel's ideology and to better heighten their spirit. [Text] [Tianjin City Service in Mandarin 1330 GMT 26 Jun 86 SK]/12766

SICHUAN CIRCULAR ON QUALITY CONTROL--On 21 June, the provincial People's Government issued a circular, demanding that economic departments at all levels vigorously implement the State Council regulations on the verification and approval of the quality of industrial products, establish the system of quality verification and approval, put these on a sound basis, and reinforce the quality control organs. With stress laid on improving product quality, we must set an advanced standard, apply advanced technology, and really do a good job in technological transformation. All enterprises must ensure that products that are not up to standard are not allowed to leave factories and be sold. Raw materials that are not up to standard are not allowed to be used. Products that the state considers inferior are not allowed to be produced and sold. Products whose standard of quality has not been set and that have not been inspected by a quality inspection organ are not allowed to be produced and sold. No one is allowed to practice fraud, pass off inferior products for good ones, forge a brand, or imitate a famous brand. All enterprises must do service work before and after the sale. They must implement the system of guaranteeing the recovery, exchange, and quality of their products. The circular demands: All places must strengthen product quality inspection. The circular stresses: It is necessary to severely punish those whose products endanger the safety and health of the masses and cause serious consequences due to product quality. Their criminal liabilities should be investigated and affixed. [Text] [Chengdu Sichuan Provincial Service in Mandarin 0930 GMT 25 Jun 86 HK]/12766

CSO: 4006/1147

FINANCE AND BANKING

FINANCIAL DISTRIBUTION IN 7TH 5-YEAR PLAN REVIEWED

HK201221 Beijing JINGJI RIBAO in Chinese 29 May 86 p 2

[Report by Wang Fu [3769 1381]: "What Are the Focal Points of the State's Financial Distribution in the Seventh 5-Year Plan Period?"]

[Text] According to what a responsible person concerned of the Ministry of Finance said, the state's financial distribution in the Seventh 5-Year Plan period will be made in accordance with the principle of acting according to our capability, doing our best, and giving consideration to the general [as published]. The focal points of financial distribution are:

--On the premise of controlling the general scale of investment in fixed assets, the structure of investment will be rationally readjusted in order to ensure that there will be necessary funds for the state's key construction projects. The reason for controlling the general scale of investment in fixed assets is to balance the general supply and demand of the society and to guard against inflation which can be caused by excessive distribution of the national revenue, thus ensuring the sustained stability of the national economy and the smooth progress of the reform of the economic structure. The reason for readjusting the structure of investment, correspondingly reducing the investment in some processing industries, and appropriately controlling the growth of investment in nonproduction projects is to ensure that there will be necessary investment in the state's key construction projects and that there will be a good foundation for economic growth in the 1990's and the years after. Therefore, in the state budget in the Seventh 5-Year Plan period, there will be 349.9 billion yuan for capital construction, accounting for 31 percent of the state's total expenditure of the same period, with an average annual increase of 6.9 percent.

--Investment in developing intellectual resources will be increased. In the state budget in the Seventh 5-Year Plan period, there will be 201.6 billion yuan for culture, education, science, and public health work. Of this, 116.6 billion yuan is for education, which is 72 percent over that in the Sixth 5-Year Plan period. The average annual increase will be 8 percent, exceeding the growth rate of the normal financial revenue. Besides, local governments at various levels will also use some reserve funds for developing education.

--The reform of the economic structure will be supported. An important task in the Seventh 5-Year Plan period is to further create a favorable economic

and social environment for the reform of the economic structure. Efforts will be made to maintain a basic balance between the total supply and demand of the society so that reforms can be carried out even more smoothly, and to strive to build, within 5 years or longer, a basic foundation for a socialist economic structure with Chinese characteristics, vigor, and vitality. This is an extremely complicated and arduous task which needs substantial financial support. In order to give comprehensive support to the reform of the economic structure, revenue from taxes and profits will be reduced; for example, regulation tax levied on large and medium-sized state enterprises will be reduced, the rate of depreciation of fixed assets of state enterprises will be raised, and support will be given to reform of the price system. On the other hand, financial expenditure will be increased; for example, some financial subsidies will be increased.

--The state's expenditure on agriculture will also be much more than that in the Sixth 5-Year Plan period. In order to maintain a coordinated development of industry and agriculture, the state will, beginning from the Seventh 5-Year Plan period, appropriately increase investment in agricultural capital construction and other agricultural undertakings. An annual sum of 1 billion yuan will also be taken from the increased portion of revenue from town and township enterprises for subsidizing agriculture. In the Seventh 5-Year Plan period, the state's expenditure on support to rural production and various agricultural undertakings and funds for supporting rural areas which are economically underdeveloped will also be substantially more than those in the Sixth 5-Year Plan period. This will play an important part in improving conditions of agricultural production, supporting the steady growth of production of grain and industrial crops and increasing the capability of poverty-stricken areas in developing production and raising the people's living standards.

The responsible person concerned of the Ministry of Finance pointed out that in distributing the state's financial resources, consideration will also be given to the needs of other kinds of expenditure while ensuring that the needs of funds mentioned above will be met. The growth of nonproduction expenditure, such as administration costs, will be appropriately controlled. However, we should also see that the Seventh 5-Year Plan period is a period in which comprehensive and thorough-going reform of the economic structure will be carried out. Since financial departments must have necessary funds available for ensuring the smooth progress of reforms, they must grasp firmly work in increasing revenue and cutting expenditure, solidly maintain the balance of revenue and expenditure, and effect a fundamental turn for the better of the financial situation. This is an arduous and glorious task of financial departments.

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CSO: 4006/1147

FINANCE AND BANKING

GUOJI SHANGBAO ON USE OF INTERNATIONAL CAPITAL

HK271117 Beijing GUOJI SHANGBAO in Chinese 19 Jun 86 p 1

[Article by Zhang Debao [1728 1795 1405]: "The Characteristics of the 1985 International Capital Market and a Proposal on Our Country Using Foreign Capital"]

[Text] The whole international capital market developed rapidly in 1985. International capital loans were \$256.5 billion, up by 30 percent from 1984. The reason for the reinvigoration of the international capital market is that capital-raisers are taking advantage of the ample supply in the international capital market and the golden opportunity of low interest rates over the past 2 years, in order to meet their demand for capital at a comparatively low cost or to restructure their old debts acquired at higher rates.

The 1985 international capital market has the following characteristics:

1. The issuance of bonds is increasing by a wide margin, and the trend of raising capital by issuing bonds has become all the more obvious, while the volume of bank loans continues to fall. More than 1,700 kinds of bonds were issued in 1985, involving a total sum of \$167.7 billion. The increase in the volume of bonds issued is chiefly because the creditor's ownership of the bonds can be transferred and the loaners may bear fewer risks. In addition, the drop in interest rates and inflation rates has also attracted people to invest in bonds. On the other hand, because commercial banks still have a lingering fear about bond crises, they are all the more prudent in making loans. In addition, the creditor's rights of the banks are not easily transferred or sold; therefore, the market does not pay great attention to this any longer. The volume of loans made by international banks was \$35.4 billion in 1985, dropping by 26.6 percent from 1986 [as published].
2. Although the exchange rate for the dollar dropped by a large margin in 1985, international bonds are still issued with the dollar as their chief monetary unit. The issuance of bonds in yen and Deutsche mark has markedly increased. The volume of bonds issued in European monetary units increased almost 1.5 fold in 1985 over 1984.
3. The sum borrowed by industrialized countries has greatly increased, but it continues to drop for developing countries. The sum borrowed by OECD

member-countries accounts for 81.4 percent of the total volume of international loans. The foreign trade deficits of developing countries continue to grow, and the debt repayment rate is rising. Most developing countries have adopted the policy of restricting repayment. Under such circumstances, international commercial banks have reduced their loans to developing countries.

4. The Soviet Union and East European countries have increased their borrowing by a wide margin with the improvement of loan conditions. This is because the Soviet Union and East European countries are short of capital on the one hand, while on the other, the Western countries are attempting to stimulate their export trade by expanding their loans.

5. Some Western countries are adopting measures to relax their foreign exchange control and to encourage other competition. These measures have somewhat promoted the expansion of the international capital market.

Between 1979 and 1985, China signed accords on foreign loans involving a volume of \$20.3 billion, and contracts on commodity credit involving a volume of \$1.762 billion. The volume of foreign loans actually in use was \$15.6 billion, and the volume of commodity credit was \$1.347 billion. By February 1986, China had issued 15 kinds of bonds in different forms in Japan and Western Europe, with a total volume of \$1.226 billion.

We should say the present is a good time for us to make use of the international capital market. The grounds are: 1) The capital market has comparatively greater funds because not much investment has been made in various Western countries. 2) The debt crises of the Third World, the Latin American countries in particular, have caused Western commercial banks to reduce their loans to these countries. 3) China has a good reputation in the international capital market, and commercial banks of various countries are willing to provide loans to China. 4) The interest rates in the international capital market are falling. Under such circumstances, we should consider the needs of our domestic construction and our repayment ability, and appropriately make use of more foreign capital (including preferential loans and commercial credit), and import more equipment which will bring double benefits in interest rates and commodity prices.

In making use of foreign capital, it is necessary to adopt the policy of diversified forms of raising capital, and the capital-raising localities should be scattered. However, the capital-raising units should be centralized. Mutual competition is unavoidable if too many units are raising funds in the same market, and this could strengthen the position of the opposite party in negotiations, make it difficult for us to acquire conditions for issuing bonds, and unnecessarily increase our costs in raising capital. In view of this, we propose that aside from making the Bank of China the chief channel for raising capital, we should make full use of the Japanese, the European, and the Hong Kong capital markets, and adopt various capital-raising means such as issuing bonds and borrowing from commercial banks and financial groups. In order to avoid the risks of exchange rates in utilizing foreign capital, we can appropriately select European monetary units.

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FINANCE AND BANKING

BANK REFORMS BROADEN GUANGDONG FINANCIAL SERVICES

OW291240 Beijing XINHUA in English 1216 GMT 29 Jun 86

[Text] Guangzhou, June 29 (XINHUA)--Less than a year ago, the Fangchun bank here, like other branch banks in China, could loan only the money it physically had on hand. When funds ran out, bank officers would appeal to higher authorities for an infusion of cash.

But until more cash arrived, loan applicants had to wait, no matter how worthy their proposals. Other branches of the same bank, even those nearby, could be flush with deposits, but for the loan applicants, who had been assigned to a particular branch, there was only delay.

Thanks to a pilot reform program, since early this year the Fangchun and other banks in Guangdong Province in south China have been authorized to exchange funds with little red tape, local officials told XINHUA. And borrowers have much more freedom to choose among banks.

The program is part of a longer term bank reform in Guangdong, itself part of the current national economic restructuring, designed to invigorate the Chinese economy by removing artificial barriers to growth.

So earlier this year, when factories and stores applied for loans to the Fangchun bank office and found it once again short of cash, all the office had to do was contact another branch and borrow 10 million yuan to meet its short-term needs.

"Such flexibility was unimaginable under the rigid management system of the past," said an official of the Guangdong branch of the People's Bank of China.

Under the old centralized operational process, enterprises looking for loans had to apply to banks assigned to them by higher authorities. And the banks themselves were dependent upon the money allocation plans of central agencies.

As a result, some enterprises had to slow down their expansion plans and sometimes even their ongoing operations when their designated bank branch happened to run short of funds--even though surplus allocations might lie fallow somewhere else.

"Around 1980, people began to realize that this way of doing business had to be changed," one local official said. "China was opening to the outside world, and other economic policies were being made more flexible."

The first step, taken in Guangdong in 1980, was to restructure the local financial institutions.

In addition to the branches of the national banks, more than 300 local banking institutions, including government-owned trust, investment and financial companies and 120 urban credit cooperatives, began to play an active role in providing money for expanding Guangdong's economy.

Even though all but the credit cooperatives are government-owned, the Guangdong's banking institutions compete and supplement each other, local officials said.

China's national banks have adopted more flexible policies and have expanded services. For example, all are now authorized to loan money for investments in fixed assets, where before only the construction bank was allowed to do so.

In the 1981-85 period, the Guangdong branch of the Industrial and Commercial Bank of China made loans involving 5.36 billion yuan for upgrading projects involving 4,692 enterprises.

More than three-quarters of the projects financed have been completed, adding 9.5 billion yuan annually to the provincial output value and generating 1.9 billion yuan a year in additional profits and taxes.

The range of borrowers has expanded from state-owned and major collective enterprises to private businesses in both urban and rural areas. Gao Deliang, a Guangzhou resident who has made a success of his special technique for roasting chickens, said his sales last year exceeded 100,000 yuan thanks to a loan from a local bank office.

In addition, all banks now accept private savings deposits, including the Bank of China which previously handled only foreign exchange. Post offices began accepting savings deposits at the beginning of the year.

Bank interest rates on private savings range from 2.16 percent a year for demand deposits to 8.28 percent a year for 5-year certificates of deposit.

To attract savings, some banks offer depositors chances to win houses or commodities in short supply--a practice unheard of before the economic reform.

Local officials said that improved services as well as the growing incomes of local residents had boosted Guangdong's total bank deposits from 3.27 billion yuan in 1981 to 19.8 billion yuan at the end of this past May.

The experiment in Guangdong Province is in line with Premier Zhao Ziyang's proposal for a new socialist management system to deal with what economists call "macroeconomic" problems, those involving the overall economy.

The proposal was made in April at the National People's Congress, China's parliament, and was endorsed by the deputies.

At the congress, Zhao said the country must make "special efforts to strengthen the important role of banks in macroeconomic control."

China must "establish a powerful but flexible system of financial control and regulation through the reform of the financial structure," he said. "The system must allow banks to raise the funds they need, and it must guide the flow of funds and make better use of them while regulating overall demand."

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CSO: 4020/366

FINANCE AND BANKING

CAPITAL MARKET TO BE GRADUALLY ESTABLISHED

HK241033 Beijing CHINA DAILY in English 24 Jun 86 p 2

[Text] China is attempting to reform its system of financial management, but the conditions are not yet ripe for the full opening of a capital market, according to Chen Muhua, State Councillor and chairwoman of the People's Bank of China.

Chen said the financial reform, aimed at moving away from exercising control of the economy through plan targets to the use of policy guidelines, interest rates and a capital market [as received]. The chairwoman was speaking at a meeting with a correspondent of the magazine WUROMONEY last week in Beijing.

Chen said that in the past few years, some Chinese businesses had begun issuing securities while some banks floated bonds, but on the whole, these have been fairly rare and are experimental.

In the future, Chinese banks will also embark on the discount and rediscount business and gradually establish a capital market.

Chen said that in the last quarter of 1984, excessive capital construction resulted in overheating of the economy and uncontrolled credit expansion. The People's Bank of China took resolute steps to strengthen macro-economic control. It put brakes on credit for capital construction, especially those projects not in the national plan. It raised the interest rate on deposits and lowered the exchange rate from 2.8 yuan to 3.2 yuan against the US dollar.

Thanks to these and other measures, balance was restored in the money in circulation and there was a slight surplus of revenue expenditures last year. Commodity prices were stabilized and exports increased.

Chen said China would stick to its open policy and continue exchanges with other countries, including importing foreign capital, technology and managerial expertise from abroad. The investment environment in China was safe and conditions were improving day by day, she said, adding that the country would welcome concessional loans from other governments and international financial institutions as well as direct investments from abroad.

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CSO: 4020/366

FINANCE AND BANKING

BRIEFS

**RURAL SAVINGS DEPOSITS--Xiamen, June 25 (XINHUA)**--Rural savings deposits hit 81.69 billion yuan from January through May, an increase of 9.68 billion yuan over the same period of 1985. This was announced by an official at the current national meeting on the work of agricultural banks and credit cooperatives. The official also said that most of the new savings were in deposit for fixed time periods. About 50 percent of peasant households throughout the country have bank accounts. China has a population of 1 billion, of which 80 percent are peasants. Peasant deposits average 96 yuan. Savings deposits by urban dwellers came to 100 billion yuan by the end of May. [Text] [Beijing XINHUA in English 0118 GMT 25 Jun 86 OW]/12766

**PENSION INSURANCE FOR COLLECTIVE WORKERS--Shenyang, June 19 (XINHUA)**--Since 1983, some 140,000 workers in more than 2,000 collective units in this capital city of Liaoning Province have taken out old-age pension insurance policies. The total of the premiums has reached 20 million yuan. The service is a result of the reform of the existing labor insurance system, under which only retired workers of the state-owned enterprises enjoy pensions. Pension insurance premiums are paid by units from their pre-tax profits. Li Changsheng, a worker at a dried noodle plant, is looking forward to a 30-yuan pension per month after retirement in 10 years since his unit now pays a monthly insurance contribution of 10 yuan for him. Chen Yingshu, a 26-year-old woman tailor, will have a monthly pension of 45.75 yuan after she retires at age 55. Her factory pays 7.5 yuan every month into the scheme for her. "We get the same benefits as people working in state enterprises," said workers of the Liming Machinery Company, which pays insurance for all its 10,750 employees. Similar schemes are also being introduced in Guangdong and Sichuan provinces, and the cities of Shanghai, Beijing and Tianjin. [Text] [Beijing XINHUA in English 0122 GMT 19 Jun 86 OW]/12766

**PEOPLE'S INSURANCE COMPANY POLICIES INCREASE--Beijing, June 19 (XINHUA)**--The People's Insurance Company of China had a total of more than 1.02 billion yuan in insurance premiums from its domestic business in the first 4 months of this year--58.7 percent over the same period of last year. Total claims for losses were valued at more than 310 million yuan--more than 45 percent over last year--according to the latest statistics from the company. Of these, the premium from life insurance reached 220 million yuan, 248 percent more than in the same period last year. That from goods transportation policies was 150 percent more than last year and that from family property 80 percent more than last year.

Of the claims for losses of 310 million yuan, 206 million yuan were accounted for by motor vehicle policies. Motor vehicle insurance has been made compulsory in 17 of China's provinces and municipalities. [Text] [Beijing XINHUA in English 1445 GMT 19 Jun 86 OW]/12766

MINERAL RESOURCES

NEW GOLD RESERVES DISCOVERED IN GUIZHOU

HK230347 Hong Kong SOUTH CHINA MORNING POST in English 23 Jun 86 Business Post pp 1, 5

[By Olivia Sin: "Recently in Guizhou"]

[Text] New gold reserves have been uncovered in China's metal-rich Guizhou Province.

A team of U.S. gold experts will visit the province in September to advise China on the best extraction method.

According to Mr Han Nanzhou, the deputy chief engineer of Guizhou's Geology and Minerals Bureau, the gold grain discovered is microscopic in size and is widespread in the southwest of the province.

However, he said more tests will be carried out to determine the "mini-gold" mine's reserves.

"The United States discovered similar gold reserves before and Guizhou will benefit by strengthening technical exchanges with them," he said.

Mr Han said Guizhou has also completed some pilot studies with success on special mining methods to extract the gold.

He said gold mining will be a major focus of the bureau's work in the next five years.

Other important areas include the mining of bauxite, coal, phosphorus and a wide range of nonferrous metals.

Analysts said the mining of gold has been given impetus all over China in view of the country's surging imports and dwindling foreign exchange reserves.

Mr Han told a group of local reporters that his bureau has been given a bigger budget for the next five years to cope with the increasing workload.

The budget for the 1986-90 period will range from 150 million yuan (about HK\$243 million) to 200 million yuan compared with 100 million yuan in the previous five-year period.

The bureau has conducted extensive surveys into the mineral and metal reserves of the Guizhou Province, measuring 170,000 sq. km.

A total of 90 kinds of minerals have been uncovered, of which 64 have been exploited in the past three decades.

Last year, the country spent a total of three billion yuan in search of new energy and mineral resources.

A substantial proportion was used on the exploration of offshore oil in the South China Sea.

Meanwhile, Guizhou authorities are keen to cooperate with foreign firms to expedite the exploration of its rich mineral resources.

Senior Guizhou officials said foreign investors will be given a fair share of the minerals explored to compensate for their efforts.

He said foreign investors are welcome to form joint ventures with the province or enter into compensation deals.

The latter is a kind of investment format whereby investors provide technology and equipment to China and get paid in kind with the finished products.

The province has the authority to approve exports of up to US\$5 million worth of minerals.

The limit was set to avoid the flooding of minerals and metals into the world market which would depress the price levels.

Guizhou, the landlocked province in southwest, has hitherto relied on its own efforts to explore its millions of tons of coal, bauxite and phosphorus reserves.

The province is slow in opening to the outside world and, as a result, has lacked the publicity it deserves.

However, analysts feared that Guizhou may be at a disadvantage in view of the world's depressed coal market and stiff competition for foreign capital from other provinces endowed with similar mineral resources.

For instance, analysts said since China has decided to go ahead with the US\$650 million joint mining venture in Shanxi Province, it is unlikely for Beijing to give the same kind of support to Guizhou.

Besides, they said investors will be hesitant to pump money into ventures in view of the world coal glut.

The Shanxi venture will produce 12 million tons of coal by 1988, most of which will be exported to generate foreign exchange.

Another example is bauxite. Analysts said Guizhou will have to wait for its turn since the central government has just given the green light for the building of a US\$700 million aluminium complex in Pingguo, Guangxi Province.

"Anyway, it may [be] better for Guizhou to wait to give itself more time to improve its infrastructure before embarking on large-scale joint projects," said one observer.

According to Mr Han, the province's coal reserves are estimated at 49 billion tons, and ranked fourth-highest in China.

The province is also the biggest coal producer in the energy-starved southern region.

Guizhou's open-pit coal reserves are made up of 10 billion tons of coking coal and 33 billion tons of anthracite.

Total production reached 23.4 million tons last year and is targeted to grow to 28.5 million tons by 1990 and 50 million tons by the turn of the century.

Apart from lack of funds, the biggest stumbling block to coal mining is inadequate transportation facilities.

"Coal production has been limited because of poor transport links," said the deputy director of Guizhou's Foreign Economic Relations and Trade Bureau, Mr Zhu Weijing.

Plans are afoot to electrify the railways linking Guizhou with major cities, including Guilin (Guangxi Province) and Kunming (Yunnan).

Guizhou has also signed agreements with Chongqing city to develop water transport to tap the potential of the Yangtse River.

A joint shipping company will be formed by the two to facilitate the outflow of coal from Guizhou to other provinces and for export.

According to Mr Han, Guizhou tops other provinces in terms of mercury deposits.

The province has 63 per cent of the country's total mercury reserves and 20 per cent of the world's known mercury deposits.

Guizhou turns out about 1,000 tons of mercury a year for both domestic and export purposes.

Most of the deposits are found in the east and north of Guizhou but the reserve figure was not disclosed.

MINERAL RESOURCES

GOLD PANNEING BRINGS PROSPERITY TO GANSU COUNTY

OW180830 Beijing XINHUA in English 0704 GMT 18 Jun 86

[Text] Lanzhou, June 18 (XINHUA)--Panning for gold has brought prosperity to a remote county in Gansu Province, northwest China, where many people could hardly make ends meet two years ago.

According to an official of the Tianzhu Tibetan Autonomous County, about 6,000 families have become rich as a result of gold panning.

Over the past two years, more than 10,000 farmers and herdsmen rushed to a 15-km river valley east of Qilian mountain to look for gold. The rush occurred because there was a surplus of labor resulting from the rural reforms. At the same time, there was an ease in the official restrictions on private panning, the official said.

One successful gold digger is Wu Wencai, a well experienced peasant. Under his guidance, the 30-odd people working with him in the same pit all made more than 10,000 yuan last year. Wu alone has made more than 40,000 yuan.

In a village near the valley, each of the 68 families made an average of 12,000 yuan last year through panning.

Entering the valley, one could see a lot of action among the rows of white tents. There are more than 300 shops including restaurants, repair shops and a cinema.

The local government has set up two production coordinating offices here to help the peasants with their money, and provide information on panning and safety.

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CSO: 4020/364

MINERAL RESOURCES

BRIEFS

LIAONING MAGNESITE DEPOSIT--Shenyang, June 26 (XINHUA)--China is building a magnesia project in Haicheng city, Liaoning Province, to utilise the region's rich resources of natural magnesite. An official in charge of the project said here today that the natural magnesite deposit in Liaoning Province makes up one half of the world's known total. Upon completion in 1988, the plant will produce 50,000 tons of quality magnesia a year, enough for the domestic market with some for export. It will end the practice of importing such material from abroad. Quality magnesia is a vital fireproof material for the metallurgical industry. [Text] [Beijing XINHUA in English 0049 GMT 26 Jun 86] /8309

CSO: 4020/364

INDUSTRY

JINGJI RIBAO ON CURRENT INDUSTRIAL GROWTH

Part I

HK190903 Beijing JINGJI RIBAO in Chinese 7 Jun 86 p 2

[*"Economic Work Commentary"* by reporters Li Hongbo [2621 3163 3134] and Yan Kalin [7051 0595 2651]: "Decline or Undulation?--Comprehensive Analysis on the Rate of Current Industrial Development (Part I)"]

[Text] Just as people were talking about the statistical figure of 4.4 percent for the industrial growth in the first quarter of this year and were forming various conjectures, the latest figure for April and May again showed a rate of about 4 percent. This means that although almost half a year has passed, there is still no sign of a pickup in industrial growth. In the face of this batch of statistical figures, it is only natural that people should express their worries from different angles.

But historical experience shows that making a simple and principled assessment of the situation in a certain stage of economic development from a tangent plane of a growth rate coordinate system often results in our failure to solve problems effectively. We should make a concrete and comprehensive analysis and grasp the development trend of the situation from an overall point of view.

**There Is Not a "Decline" or "Excessive Cooling"**

China's industrial output rose by 4.2 percent from January to April, compared with the same period last year. Judging from the growth rate alone, this is indeed the lowest rise recorded in recent years. For this reason, some people said: There has been "excessive cooling" of the economy and a "decline" in industrial production.

Is that true? To answer this question, we should first establish a viewpoint: The growth rates calculated from two different starting points can only reflect economic development in two different periods. However, because it is impossible for the economy as a whole to develop in an absolutely stable and even way, it is often unreliable to use a certain growth rate to reflect the general trend of economic development. In other words, a certain growth rate is relative to two starting points and, when it falls on a certain coordinate point of an economic development curve, the rate, like an "absolute," cannot explain more problems. Therefore, in analyzing growth rates we should not

compare them in an oversimplified way, still less should we neglect the original basis, that is, the difference between two starting points. A growth rate of 4.2 percent was recorded in the first 4 months of this year compared with the same period last year, when an "excessive growth rate" of 23.3 percent was recorded compared with the corresponding period of 1984; such is the basic for the comparison. It is evident from this that a further 4.2 percent increase on the basis of a 23.3 percent rise can obviously not be judged as "excessive cooling" of the economy, and even if it is compared with the growth rate of 18 percent for the whole of last year, this cannot be described as a "decline"; and still less can it be said to be a "decline," if we discount certain abnormal factors of excessive growth, in comparison with the planned growth of 8 percent last year and 8 percent for this year.

#### It Is Only an "Undulation"

In order to explain this question more satisfactorily, it is necessary to review the path we have taken in the past year or so. In the last quarter of 1984, China macroeconomically "lost control" in capital construction, credits, and so on. This directly caused the "excessive growth" in industry at the beginning of 1985. In the first quarter of last year, the rate of industrial development was about 23 percent; in April it again rose to 24.8 percent. The sudden "heating up" of the economy resulted in proportional imbalance in various aspects and intensified the strains on energy and the shortage of raw and semifinished materials. In light of the "overheating of the economy," beginning in the second quarter of 1985, China promptly adopted a series of retrenchment measures for strengthening macroeconomic control. These measures began to yield results in the third quarter. Compared with the corresponding period of 1984, the rate of industrial development dropped month by month. It was 20.4 percent in July, 17.5 percent in August, 14.5 percent in September, 11.7 percent in October, 8.8 percent in November, and 10.8 percent in December. The rate of industrial development for the second half of 1985 was 12 percent. Macroeconomic control yielded outstanding results and this should be affirmed.

With the rate of industrial development dropping steadily from 23 percent in the first half to 12 percent in the second half of the year, not only did the "overheating of the economy" rapidly moderate but the rapid drop of 11 percentage points was different from what we had expected. Since the beginning of this year, the rate of industrial development has continuously dropped to about 4 percent, another drop of about 8 percentage points. With a total drop of 19 percentage points, from 23 percent to 12 percent to 4 percent, does this mean that the drop has been too fast? Can this be regarded as a great fluctuation in the economic development? Can this be regarded as a normal effect of macroeconomic control? It seems we should probe into the matter more penetratingly.

In our view, although there have been "big rises" in China's industrial production in recent years, there have been no "big falls." The slowdown in growth rate has been a gradual, month by month affair since the second half of last year. However, we should admit that "small undulations" have appeared that exceed normal economic fluctuations and that the figure of about 4 per-

cent is only a national average, and in areas that have recorded growth rates below that, or even negative growth rates, these could all the more be described as "undulations" with worrying prospects. For this reason, the economic factors lying behind these "undulations" are problems about which the economic departments should be more concerned at present.

#### "Undulations" Are Inevitable

With the in-depth development of the reform, the operation situation of the national economy has undergone conspicuous changes. In industrial departments, the scope of mandatory production planning has gradually been reduced and the decisionmaking power of enterprises has been expanded. For this reason, the enterprises pay more attention to meeting the needs of the socialist market than before; their reactions to the market are also quicker than before; and the poor-quality, high-price, and technological backward products with little potential are more likely to be eliminated in the course of market competition than they were before. It is against this background that the series of retrenchment measures taken by the state with the primary aim of controlling aggregate social demand have quickly produced the desired results.

We should also note that although we have taken an important step forward in the urban reforms and have attained satisfactory results, taken as a whole, we are still in the process of replacing the old structure with the new, and the macroeconomic regulatory methods are not quite perfect. When the situation whereby two structures coexist is reflected in industrial production, the following circumstances will inevitably emerge: On the one hand, the indirect control lever of market mechanism based on the law of value does not work quite effectively; on the other hand, the role of indirect control through regulation by planning mechanism, which takes a comprehensive balance as a temporary aim, has dropped considerably. As an accounting parameter of the national economy, the planned quotas still play an important role in the formulation and fulfillment of the state plan, but their practical effect has obviously been subject to the comprehensive influence of various extrabudgetary and uncontrollable factors and the inevitable, substitutional impact of regulation by market mechanism, bringing about unpredictable changes in economic activities. Therefore, the appearance of "undulations" in industrial production is objectively inevitable, and to a certain extent it is a normal reflection in economic construction of the complexity of China's urban reforms. People therefore need not fly into a panic when "undulations" occur; but of course it is necessary to attach great importance to the series of new problems reflected by these "undulations."

#### Part II

HK201216 Beijing JINGJI RIBAO in Chinese 10 Jun 86 p 2

[Text] Objectively, it is inevitable that there will be "undulations" in industrial development. Is there any subjective reason for this? In particular, being the dynamic factor, how does this affect our future industrial development?

### "Braking Slowly" and "Acting Indiscriminately"

Since the founding of the state, there have been times that the national economy was "overheated." This phenomenon was mainly dealt with by "braking sharply." The methods brought about violent economic fluctuations. When dealing with a high rate of development in the last quarter last year, however, the state adopted the guiding ideology of "braking slowly" through its macroeconomic control measures so that the national economy could quickly ease the comprehensive tension under the circumstances of being overheated. This has shown that the large-scale socialist economic construction experience of our party and government has become more sophisticated.

Of course, proceeding from specific measures, to tighten the money supply and to control the circulation of currency are direct administrative controls. Furthermore, under the circumstances of that time, we could not but adopt "indiscriminate acts" to deal with different conditions in various places. Nevertheless, the conditions for adopting indirect controls were yet to be perfected. To exercise direct control was therefore the only way out. Also, in such a big country as China, it is impossible for the central authorities to adopt a method for a single area. In addition, various places differ in varying degrees in implementing the measures. It has thus developed in the beginning of this year that there are different rate of development in various places. The key to solving this situation rests with various localities, which should implement the central authorities' general principles and policies in connection with their conditions and should minimize as much as possible the shortcomings of "acting indiscriminately." In fact, localities that adopted a "slow braking" approach suffered little shock. While mitigating the contradictions between supply and demand, they only experienced some normal "undulations" in production. For instance, last year's industrial rate of development of Qingdao City was 16 percent. Between January and April this year, the percentage only dropped to 11 percent. The conditions in Zhejiang and other places were also not bad. However, there were places which, either consciously or unconsciously, "acted indiscriminately" and "stirred up a strong wind." By "acting indiscriminately," they excessively stressed the supply of credit, foreign exchange and raw materials to an inappropriate level. Therefore, some "marketable" products that were badly needed by society were also checked. The rate of development dropped so sharply that some large cities experienced a negative growth of industrial production in the beginning of this year; they switched from being "overheated" to being "overcooled." We should draw lessons from our past practice in this respect. Furthermore, we should not underestimate the role of this kind of partially "violent fluctuation" as a process of "quantitative change."

### We Should Attach Great Importance to the Issue of "Insufficient Demand."

It is undeniable that the high rate of development in the first quarter last year was related to the inflation of consumption capital, disallocation of fixed capital investment and the situation of credit management, which went out of control. Proceeding from the aim of checking the excessive general demand of society, it was necessary that the state adopt at that time macroeconomic control measures. Similarly, it is also undeniable that various kinds of macroeconomic control means should be further perfected in the area

of improving economic results. This is because supply, which is under the category of circulation, and demand, which is under the category of consumption, are, in the final analysis, decided by production. Our fundamental way out for balancing the supply and demand rests with the development of production, so as to lay a solid foundation for increasing supply and satisfying demand. Otherwise, our controls will only bring about temporary relief but cannot solve the cause, thereby resulting in "violent fluctuations."

After we adopted the tightening measures in the second quarter last year, the supply and demand situation of both light and heavy industries respectively changed: Beginning from July, the rapid growth rate of heavy industry's supply and demand was basically checked. The light industry's supply and demand also became more steady. In the past, the supply and demand usually increased in a gradual way after September. At the same time, the scale of capital construction was under control, and the growth rate of consumption capital was slowed down. Though our control over the general demand effectively eased the over [word indistinct], it could not improve the conditions of supply. Moreover, to solve this situation simply by exercising control means that we "deal with our shortcomings by restraining our strong points." The cost of exercising control was economic losses in some areas. This is because the focal point of our control at that time could only be the inflated demand which was suppressed by us. Hence, we could not improve the conditions of supply through the work of changing the product structure and improving the economic results. Also, we could not basically eliminate the cause for the contradiction in which the general demand exceeded the general supply. The ultimate way for solving this contradiction is to develop production, increase the supply, and ensure a continuous, steady and coordinated development of the national economy.

Beginning from the fourth quarter last year, because of our control over the general demand, the contradiction in which the general demand of society exceeded the general supply was mitigated to a certain extent. At that time, some people proposed that we should be careful not to suppress the demand to excess. They also expected that there might be the trend of having insufficient demand by the end of this year. In connection with this economic development trend, it seems that we should, at the beginning of this year, take a relaxed attitude in a selective and appropriate way toward the situation. We should continue to exercise tight control over areas like the scale of capital construction and so on, while we take a relaxed attitude toward areas like the supply of circulation funds and so on. If we let the comprehensive tension last for a long time, the situation may soon have new problems like insufficient economic growth and a lack of reserve production strength because of the cumulative long-lasting suppression over supply. Our situation since the beginning of this year has just reflected this symptom. According to the statistics, in this year's first quarter, the retail sales of consumer goods was increased by 5.4 percent compared to the same period last year, and was lower than the growth rate of last year's first quarter, which was 44.6 percent. The gross volume of commodities purchased by the state-run commerce and supply and marketing cooperatives was just increased by 6.4 percent over the same period last year, while the retail sales of social commodities were increased by 9.6 percent over the same period last year. After deducting the inflation factors, the growth rate in the above-mentioned areas is the lowest

in recent years. Some industrial products have been overstocked. By the end of March, the product-capital ratio of state-run enterprises was increased by 27.7 percent over the same period last year, including unmarketable and overstocked goods worth some 1.5 billion yuan. This situation is a result of the poor quality of goods and having insufficient demand (of course, this shows that the contradiction between supply and demand has been mitigated). For instance, in this year's first quarter, 16 out of 21 kinds of major goods were overstocked in a larger quantity compared with the same period last year. Finally, the insufficient demand and the slow industrial development coexist. To a certain extent, this shows that insufficient demand can influence supply, will make things difficult for us to maintain the rate of development for production, and will make it impossible for us to basically solve the contradiction between the general demand and general supply. Therefore, we should attach great importance to the issue of "insufficient demand."

#### What Are The Causes of Shortage of Circulation Capital

Enterprises' shortage of circulation capital also affects the general supply. Last year, we implemented the measure that the banks are responsible for supervising in a centralized way the circulation capital. Then, many enterprises were behind in payment among themselves, and the situation became more serious. Some people even attributed the drop of the industrial growth rate to this. In fact, this is not so. This is because even when we strictly controlled last year the circulation of money, the amount of credit of industry's circulation capital was increased by 22.3 percent. This basically tallies with last year's production growth rate. This year, it is planned to increase the credit total by 16.1 percent, including the circulation capital of industry, commerce and building industry, which accounts for more than 60 percent. But why is it that enterprises' circulation capital is in short supply? Where has the money gone? According to the investigation of the authorities, such abnormal phenomenon takes place mainly because of human factors--in order to deal with the situation in which their capital construction investment was put under control, some localities and enterprises allocated the circulation capital to expanding their investment in fixed capital, thereby directly affecting their current production. This is a new problem worth paying attention to, and it seems that this was unexpected when the authorities strengthened macroeconomic control. This has just shown the necessity for improving macroeconomic control.

Furthermore, as our tightening measures have played a positive role in checking the unmarketable goods, as well as the excessively rapidly developed processing industry and collective industry, such market items as textile, electricity, raw materials and so on, which were in short supply, have undergone rapid growth since the beginning of this year. Also, the departmental structure and ownership system of industrial products were preliminarily improved. But the contradiction between the production structure and demand structure of society still exists. This is another factor that currently hinders and will continue to hinder for a long time to come the development of industrial production. In addition, there are some unusual factors. For example, some problems developed in the course of readjusting wages. People did not have a common understanding about the responsibility system of factory directors and managers. Some enterprises took a relaxed attitude for a time

toward the production organization and operation management. Some people refused to decentralize the decision-making power down to enterprises, and so on. To a certain extent, these factors also hinder the production development.

Through the comprehensive analysis, we understand that the current "undulation" in our industrial development is caused for a variety of reasons which are interrelated. On the one hand, these factors lead to "gentle undulation," and on the other, they may bring about "violent fluctuation" in economic development.

### Part III

HK230725 Beijing JINGJI RIBAO in Chinese 11 Jun 86 p 2

[Text] Industrial growth for the first half of this year, estimated at around 5 percent, has become a foregone conclusion. Now we have the following two development objectives to choose from: First, continue to curtail demand so that the growth of industrial production in the latter half of the year will be maintained at around 5 percent and so that the annual growth rate will not exceed 5 percent; second, relax the curtailing measures selectively to a certain extent so that industrial growth in the latter half of the year will reach 12 percent and the growth over the whole year will be maintained at around 8 percent, and so that the year's development plan will be realized and the product mix will be further readjusted.

#### Choice of Two Different Speeds

Some comrades hold that this year's industrial growth would be reasonable if it were maintained at 3 to 5 percent. They believe that such a growth rate would help control financial and credit spending, the rise in the price index, large-scale investment in fixed assets, and the excessive growth of consumption funds, and gradually solve the question of over-distribution of the national income.

We hold that this choice should be open to question. If industrial growth is allowed to drop suddenly from 14 percent in 1984 and 18 percent in 1985 to 3 to 5 percent, it would be tantamount to a "drastic rise and fall." Moreover, the low growth of industrial development adversely affects the use of natural resources and production equipment, dampens the initiative of the masses, and hinders the normal development of the economic situation. In order to realize the grand objective of quadrupling the total industrial and agricultural output value by the end of the century, the growth rate of industry, which occupies a decisive position in the national economy, should be a bit higher. And what is more, the current reform needs a spacious economic environment. But a growth rate of 3 to 5 percent will directly affect this year's balance of revenue and expenditure and cause a greater deficit. In addition, it will slow down the increase in the national income and improvement of the people's living standards, and reduce a considerable number of production, commercial, and foreign trade units throughout the nation to a state of "depression."

In order to select an appropriate growth rate, we should take our social and economic capacity into account and correctly handle the relations between economic construction, the reform of the economic structure, and improvement of the people's living standards. On the premier of attaining better social and economic results and not exceeding the limits of credit funds, investment in capital construction, foreign exchange, and consumption funds, we should maintain an appropriate growth rate for industrial production. It would be better to be faster than to be slower. For this reason, we hold that 8 percent would be an appropriate growth rate for industry this year. Because it will be advantageous to making the most of production resources, to increasing employment opportunities and workers' incomes, and to creating a spacious economic environment for the reform of the economic structure.

#### A Growth Rate of 8 Percent Is Not Beyond Reach

Although a growth rate of 8 percent is 50 percent lower than last year, it is still relatively high for the conditions and possibilities of current economic development. It may be difficult to attain the target. As mentioned previously, there are many factors that condition the development of industry. Consequently, we should adopt a variety of countermeasures. In order to attain a growth rate of 8 percent, we should adopt some appropriate and flexible measures in light of the varying conditions of different localities and various factors that condition the development of industry. For example, the conditions for granting circulating funds can be duly relaxed according to the actual needs of various departments, trades, and enterprises and relevant readjustment measures can be adopted. While increasing the interest rates on circulating funds, differential rates can be charged on certain trades and departments. Investment in equipment replacement and technical updating can be duly relaxed and economic, legal, and administrative means can be taken to restrict the development of certain products that are in ample supply and to stop the production of some products that are expensive and inferior in quality, and that exhaust raw materials and produce poor results, so as to prevent duplication. Legal and administrative means can be taken to ensure the reasonable scale of enterprises, encourage and support enterprise reorganization and readjustment, and implement the various reform measures that promote enterprise invigoration so that the initiative of enterprises and workers for production is fully aroused. Furthermore, with the overall measures taken to increase industrial production and tap latent potential, the growth rate of 8 percent will be attainable.

It should be pointed out that the appropriate growth rate we have proposed does not mean one-sidedly seeking a fast growth rate or neglecting the unity of growth rate, product quality, and efficiency. The growth rate we require is one without "exaggeration" that can ensure quality and good sales of products, as well as state revenue. As economic results since the beginning of this year have not shown any improvement, it is necessary to put the establishment of an efficient type of economic mechanism and attainment of better economic results in first place.

### Take Precautions Against Another "Economic Craze"

We should not neglect the following question concerning the growth rate: While minor rises and falls may lead to drastic rises and falls, another "economic craze" may arise.

Although the excessive investment in fixed assets has been curbed since July last year, the scale of investment as a whole is still beyond the capacity of the national economy. Since October 1985, the large scale of investment, particularly the increasing number of new projects and self-raised funds invested in nonproductive projects, has added new pressure on social general demand and further extended the capital construction front. The question of controlling the increase in consumption funds is more complicated. There are still some outstanding problems in wage reform that must be solved. Increases in wages should correspond to increases in national income. Owing to various unexpected factors, control of consumption funds of enterprises may be lost again. These factors have increased the difficulties in the control work. In addition, we should also take note of controlling financial expenditure. For this reason, we should never think that a low industrial growth rate can make everything turn out fine, thus forsaking the necessary control measures and repeating the mistake made in the fourth quarter of 1984. Therefore, we should create a spacious environment and maintain an appropriate economic growth rate, as well as adopting flexible measures selectively on the premise of strengthening macroeconomic control. For example, it is necessary to continue to curtail the scale of investment in fixed assets, particularly extra-budgetary investment. We should vigorously develop necessary projects and stop unnecessary ones in light of need. We should transfer a portion of fixed assets investment into circulating funds and adopt measures to curb the practices that attempt to transfer circulating funds into fixed assets investment. We can also exercise macroeconomic control at various levels by transferring control quotas to provinces, municipalities, autonomous regions, prefectures, cities, counties, departments, trades, and enterprises, give full play to the role of every sector so as to leave room for macroeconomic control, and eventually ensure the effect of macroeconomic control.

So long as we proceed from actual reality, resolutely implement the reform principle of "consolidation, assimilation, supplementation, and improvement" of the CPC Central Committee, effectively improve macroeconomic management, properly handle the relations between macrocontrol and microflexibility, and arouse the enthusiasm of various fields, so that all enterprises will take note of improving product quality, cutting down consumption, achieving better economic results, and preserving reserve strength in their future work, it will be possible to satisfactorily realize the industrial growth rate of 8 percent for this year and to further maintain the balance of social demand and supply. Thus, we can create a spacious environment for our current economic life, lay a solid foundation for next year's appropriate growth rate, bring the national economy as a whole into the orbit of a benign cycle, and ensure the successful completion of the tasks of structural reform and economic construction set by the Seventh 5-Year Plan.

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INDUSTRY

HENAN GOVERNMENT MEETING DISCUSSES INDUSTRIAL ISSUES

HK200211 Zhengzhou Henan Provincial Service in Mandarin 2200 GMT 19 Jun 86

[Excerpt] On 18 and 19 June, the provincial government convened a meeting of prefectural commissioners, city mayors, and responsible comrades of provincial departments and bureaus concerned to study and make arrangements for industrial production and to unswervingly promote the plant manager responsibility system.

The meeting stressed: There is no change in the province's goal of ensuring 8 percent and striving for 10 percent in industrial growth this year. All prefectures, cities, and departments must have confidence, strengthen leadership, and take effective measures to ensure that this goal is attained.

The meeting pointed out that the key to doing a good job in industrial production lies in persevering in putting reform in the first place and unswervingly promoting the plant manager responsibility system. All units where the conditions are right must practice this system. In enterprises practicing this system, the plant managers are commissioned by the state to exercise unified leadership and full responsibility over production operations. The party committees must actively support the plant managers in exercising their powers in directing production operations, ensure and supervise the implementation of the party and state policies and principles, and do a good job in ideological and political work in the enterprises.

We must bring everyone's thinking into line with the spirit of the CPC Central Committee's decision. We must deal seriously with instances of disunity between plant managers and party committee secretaries which affect work. If a plant manager is indeed incompetent, he must be promptly transferred. If the secretary does not cooperate, does not support the manager's work, or even deliberately raises obstructions, he must be resolutely transferred; and he cannot be made a party committee secretary of another enterprise after transfer.

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INDUSTRY

GUANGXI REVISES REGULATIONS ON ENLIVENING INDUSTRY

HK300517 Nanning Guangxi Regional Service in Mandarin 1000 GMT 28 May 86

[Text] According to GUANGXI RIBAO, in accordance with the spirit of the decision of the CPC Central Committee on reform of the economic structure and a series of important policies and measures on reform formulated by the state council, the regional people's government, with the national autonomy power endowed by the autonomy law of nationality areas and in connection with the new situations and problems arising in in-depth development of urban economic structural reform in the region, recently revised some regulations formulated 2 years ago on enlivening industrial economy, namely, the 12 regulations.

The regional people's government stressed that all departments and units in the region must unify their understanding, act in unison, earnestly implement the regulations, and invigorate Guangxi's economy with one heart and one mind.

The main contents of the revised 12 regulations are as follows:

1. Vigorously develop collective economy.

Cities and towns must properly run the existing collective enterprises, and vigorously develop new collective enterprises. In accordance with the needs in production and with the approval of the relevant authorities, state-run enterprises may set up collective-run workshops or branches. Small state-run enterprises, particularly those which have suffered losses for a long time due to poor business management, may either operate in the form of state ownership, collective operation, paying tax according to regulations and assuming sole responsibility for their own profits and losses, or transfer or lease out themselves to collectives and individuals. Newly established collective enterprises will be exempted from the income tax for 3 years from the date of their operation. Enterprises engaged in labor service will be exempted from the business tax for 3 years.

2. Vigorously promote technological advancement.

From this year the 30 percent fixed assets depreciation fee of enterprises which was stipulated by the regional authorities in the past will not be submitted to authorities at higher levels, but will be retained by the enter-

prises themselves for their self transformation and development. In making budgets every year, financial departments at all levels must allocate some funds to economic committees which may use the funds to upgrade the quality of products, to improve safety and environmental protection, and to develop technological transformation of the products in short supply. Product tax and value added tax will be exempted for 3 years for the new products which have been listed in the trial production projects of the State Scientific and Technological Commission and the State Economic Commission and which have been proved qualified after examination. Collective enterprises and enterprises in the 48 counties listed as main targets for getting rid of poverty will be exempted from product tax and value added tax for 3 years for their new products.

### 3. Vigorously promote various economic responsibility contract systems.

On the basis of the second step work in substituting taxes for the delivery of profits and with no change in the shared base figure in the financial responsibility system, enterprises may, with the approval of the relevant regional departments and the approval of governments at all levels, institute the target responsibility system or profit target responsibility system. As for the profit in excess of the base figure, financial departments should make awarding compensation to enterprises according to different base figures. Enterprises suffering losses due to poor business operation should sign responsibility contracts with the responsible departments on turning losses into profits within a time limit. Regular bonuses should be granted to those enterprises which turn losses into profits within a time limit. As for the enterprises which fail to turn losses into profits within a time limit, their staff and workers will have part of their pay haved and leading cadres of the enterprises will be removed from their posts.

### 4. Consolidate, upgrade, and improve the economic responsibility system within enterprises.

It is necessary to reasonably shrink accounting units, to bring them lower levels by competent management, to integrate awards with economic results, and to give prominence to quality and costing targets. On deciding bonus distribution, the quality targets of an enterprise is the final arbiter. Enterprises have the power to decide on the use of award funds retained by them in accordance with the relevant regulations. According to their own conditions and situations, enterprises may institute various wage systems and reward and punishment methods, such as the floating wage system, the floating promotion system, the job wage system, and the post allowance system.

### 5. Alleviate enterprises' burdens.

It is necessary to gradually reduce the regulatory tax of large and medium sized enterprises. Except for what is stipulated by the State Council, and the regional, prefectoral, and city governments, no departments or units are allowed to collect without authorization charges from enterprises under any kinds of pretext.

**6. Vigorously promote and develop lateral economic ties.**

Lateral economic ties between enterprises should be free from restrictions caused by different areas, departments, trades, and ownership. It is necessary to protect the decisionmaking power of enterprises in developing lateral economic ties. Enterprises are allowed to participate in or withdraw from economic combinations of their own accord and in accordance with the stipulations in agreements and regulations. Economic combinations must carry out their work in accordance with the regulations formulated by the State Council on further promoting lateral economic ties in areas of distribution of interest, tax collecting methods, funds circulation, investment policies, industrial and commercial management, and statistical methods.

**7. Actively Use Foreign Funds and Bring in Advanced Foreign Technology.**

In the future, the regions and all prefectures, cities and counties will use about 50 percent of local foreign exchange quota to import technology and key equipment from foreign countries so as to speed up technological transformation of the existing local enterprises. If domestic currencies are needed in using foreign funds and bringing in technology, the relevant departments must make arrangements in order of priority.

**8. Properly integrate industry and trade, develop export business.**

If enterprises assigned export tasks need foreign exchange to import some raw materials from foreign countries, they may apply for loans from the Bank of China, and repay the loans in installments by using the foreign exchange retained by them resulting from exporting their products. If these enterprises need to import equipment to carry out technological transformation, they will be given priority in receiving loans.

**9. Properly develop cooperation between industry and commerce, dredge circulation channels.**

The two parties, namely, factories and commercial departments, must sign contracts for the planned purchase of products. Factories must arrange production in a planned way according to the contracts. Commercial departments must purchase the products in a planned way according to the contracts.

**10. Earnestly implement central regulations on giving enterprises decision-making power.**

It is necessary to continuously promote the factory manager responsibility system and the target responsibility system related to the factory managers' tenure of office. Deputy executive posts at factory level must be nominated by factory managers and approved by the responsible departments. Factory managers have the right to appoint or dismiss middle-level cadres in their factories. Enterprises may increase prices by 15, 10, or 5 percent respectively of their products which won the national golden and silver prizes, and the famous brand and fine quality prizes awarded by ministries, and by the regional authorities.

11. Vigorously promote use of intellectuals, and open all avenues for making money.

In addition to the educational funds for staff and workers listed in their costing which is stipulated by the state, enterprises can also use part of their retained profits in investment in intellectuals and train talented people in various channels. The pay of intellectuals who have made grade contributions can be increased reasonably and their spouses and children, with the approval of leading organs above county level, can be placed to jobs, including having their rural residence registration changed to non-rural residence registration.

12. Strictly implement policies.

We must draw a clear line of demarcation in our work. We must not lump together economic activities prompted by policies and bad practice, nor should we lump together acts which slightly deviated from policies and economic crimes, and some of our mistakes in reforms and some people's acts of taking advantage of reform and their power to seek personal interest.

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INDUSTRY

LIAOWANG ON NEW ECONOMIC SYSTEM IN RAILROAD INDUSTRY

HK260601 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 24, 16 Jun 86, pp 3-5

[Article by Zhu Haiyan [2612 3189 3601]: "Bold Reforms in China's Railroad Industry"]

[Text] In the history of reform of China's economic management system, this move will probably be a quite bold experiment; that is, the State Council approved that beginning this year, the Ministry of Railways would introduce a new economic system of contracted responsibilities during the Seventh 5-Year Plan period.

The implications of the contract system are by and large as follows:

On the one hand, during the 5-year plan period, the state will no longer allot a cent to the Ministry of Railways for the purpose of carrying out railroad capital construction. In accordance with the Seventh 5-Year Plan, the state will allot 25 billion yuan to the Ministry of Railways for that purpose in the form of loans.

On the other hand, during the 5 years, the Ministry of Railways will no longer hand its profits over to the state (formerly it had to turn its profits over to the state, with 1.2 billion yuan as the base and at an annual rate of increase of 2 percent) and will no longer pay 55 percent of its profits to the state as income tax, and its business tax will be reduced from the former 15 percent of its total transactions to 5 percent.

In other words, the state will not allot money to the Ministry of Railways and, apart from the 5 percent business tax, the ministry will not pay any money to the state. However, the freight volume of railroads and railroad capital construction should increase at a certain growth rate.

Since the proposition was agreed to the satisfaction of all, can we then be free from all anxieties? Certainly not having calculated minutely, chief accountant Yu Xindi, with the Bureau of Finance of the Ministry of Railways, finally reached a general concept: after balancing what the state formerly had to allot to the Ministry of Railways and what the ministry had to hand over to the state in normal business years as scheduled, the ministry will have a big gap of 4 billion yuan during the 5 years. Neither worriedly nor

confidently, Yu Xindi said: "Whether or not the gap can be filled depends on the way we carry out our operations. However, we have confidence in our operations. If everything goes well, not only can we fill in the gap but we can also gain greater benefits from our operations."

The above statement by the chief accountant was representative. In introducing the responsibility system, our aim is to mobilize the internal energies of railroad enterprises so as to speed up the capital construction and technological transformation of China's railroads using the funds accumulated by railroad enterprises.

#### The Strained Situation in Railroad Transport Must Be Urgently Changed

Since the founding of the PRC, very great achievements have been scored in China's railroad industry. During the Sixth 5-Year Plan period (1981-5), the freight volume of China's railroads increased on average by 35 million tons a year, or an annual average increase of 3 percent, and their passenger transport volume increased on average by 50 million passengers a year, or a yearly increase of 4.9 percent. In 1985, the volume of freight transported by railroad totaled 1.275 billion tons, and passenger transport amounted to 1.11 billion passengers.

However, compared with the development of the national economy as a whole, the railroad industry has lagged behind. According to statistics provided by the State Statistical Bureau, the ratio between China's industrial growth rate and the growth rate of its railroad freight transport volume between 1954 and 1980 was 1:0.71; that between 1981 and 1984 was 1:0.31; and that in the first half of 1985 was 1:0.21. Although the freight volume of railroad increases every year, in reality, it can only meet 70 percent of society's needs. The same is basically true of the incompatibility of the passenger volume by railroad with society's needs. "It is hard to get access to buses or public motor vehicles" has become a remark widely used in the community. The overloaded transport in the busy sections of the Beijing-Guangzhou, Beijing-Shanghai, Beijing-Shenyang, and other railroad trunk lines is something rarely seen in the world. Material such as coal and timber, have to be stock piled, awaiting transportation. Passenger cars are generally seriously overloaded and many passengers have to stand in the passenger cars carrying them from Beijing to Shanghai.

The most fundamental reason behind this state of affairs is that China's railroad facilities are insufficient and its railroad technology is backward. With a vast territory and a huge population, at present China has only 52,000 km of railroad in operation, averaging 0.5 km for every 10,000 persons, or 0.53 km for every 100 square km of land. In the United States, there are 12.65 km of railroad for every 10,000 persons and 3.08 km for every 100 square km. Compared with the Soviet Union, Japan, and the FRG, China still has a long way to go in this regard. We are more markedly backward in terms of technology and equipment. Developed countries have entered the age of electrified and high-speed trains, while 70 percent of China's locomotives are still steam-driven.

There is an historical reason for China's backward railroads--China was originally a backward semicolonial and semifeastal country. Although China's railroad

industry has made very great progress over the last 30-odd years since the founding of the PRC, the industry's backward outlook has not been completely changed. One quite important reason for this state of affairs is that its management system is so rigid that it is impossible for the railroads to actively develop in compliance with social and economic development.

As a functional department in charge of the management of the state's railroads, the Ministry of Railways has for quite some time had limited decision-making power, like many other enterprises. In the past, it relied on state allocations in building every km of railroad and every locomotive, and most of the profits it created from its operations had to be handed to the Ministry of Finance in the form of profits and taxes. This management system, under which all revenues and expenditures are handled by the state in a unified way, has caused the industry to fail to gain internal vitality and to transform and develop itself using its own accumulated funds.

A responsible person in the Ministry of Railways said in a briefing session: The ministry is divided into six departments, such as railroad transport, railroad industries, and railroad capital construction. The financial revenues and expenditures of these six departments are directly managed by the Ministry of Finance. Under this system, even the Minister of Railroads has no right to make inquiries about their financial affairs. This has given rise to a strange phenomenon: The ministry has no right to withdraw and use the money deposited by some of its departments, and if some departments are in urgent need of money and want to borrow money from banks, they have to pay very high interest for it. This can be called: The state gives you money for oiling machines but you cannot use it for buying vinegar, or vice versa.

This management system has unavoidable given rise to all sorts of malpractices. One is that those who are in charge of production do not care about operation. Production departments only pay attention to how much freight volume they have carried and they simply never think about how much profit their fulfillment of production quotas can create, not to speak of whether or not the fulfillment of freight volume by using their current carrying capacity is economical and rational from a comprehensive point of view.

Another is that the investment in railroad capital construction is not linked to its economic results. Investment is one thing and return on an investment is another. Since investment is made by using state funds, it is impossible and unnecessary to give full consideration to the economic results of the construction of projects using state funds. So long as railroad departments can get funds from the State Planning Commission, they will carry out the projects whose construction should be postponed or which should not be carried out. Railroad departments are not, in any case, held economically responsible for the waste or the sparing use of investment in capital construction. Therefore, more often than not, the investments of the state, using its precious funds, fail to produce the desired results. According to an analysis by an industrial statistics expert, the capacity of the 19 railroad trunk lines and 14 railroad feeder lines, totaling 10,000 km, which have been completed and commissioned since 1966, is left unused in varying degrees due to freight volume shortages. In 1982 alone, the railroads lost 830 million yuan in operations.

As a coal thoroughfare, the 308-km-long Yanzhou-Shijiusuo railroad has recently been commissioned. Along the railroad there should not have been 38 stations constructed, but, because the authorities concerned got the appropriate funds, they built the stations one by one, up to the present number. This increased not only investment in capital construction but also expenditure in the operation of the railroads, because in building a station, a certain number of additional staff members and workers and water and power supplies are needed for the operation. When inspecting the railroad in November 1985, Vice Premier Wan Li said: There are too many stations along the Yanzhou-Shijiusuo railroad. How much money will the state spend in building a station? A station covers 100 mu of farmland. A mu of farmland can produce several hundred jin of grain a year. How much grain can it turn out in 10 years or in several decades?

How did this waste occur? True, it is related to bureaucratic practices and lack of appropriate deliberations in economic decisionmaking. However, the most fundamental reason is that it is the result of the existing management system. Of course, China's backward railroad industry can be attributed to some other external causes. Nevertheless, these external causes are related to the whole economic management system. For example, the obsolete railroad equipment is connected with the low depreciation rate set by the state. The basic depreciation rate of the railroad industry is 3 percent. It is renewed once in 33 years. This is far from meeting the needs of the situation in which science and technology are going ahead by leaps and bounds. Again, for example, the charges for railroad transport are a little too low. The charge for every ton-km of goods is less than 2 fen, or about one-eleventh of road transport fees. The charge for carrying 1 jin of vegetables from Chengdu to Beijing is at most 1.2 fen, and that for carrying 1 jin of apples from Yantai to Urumqi is just 2.55 fen. Low carrying charges of this kind have, on the one hand, encouraged over loading of various goods in the railroad sector, thus causing greater strain on railroad transport and, on the other, hampered the railroad industry's capacity to develop itself using its own accumulated funds. In reality, promoting the development of the railroad industry by boosting its own accumulation will bring the whole society far greater economic results as compared with the industry's direct economic results. For example, in 1984 some 30 million tons of coal was stockpiled due to transport capacity shortages. If the stockpiled coal was shipped out to other parts of the country, it would bring an additional output value of 50 billion yuan, or an additional 1.25 billion yuan of taxes and profits to the state. It can thus be seen that developing the railroad industry using its own accumulated funds is in conformity with objective economic laws.

As a matter of fact, the irrational price system and the excessively low depreciation rate not only handicap the railroads from responding sensitively to economic laws but also hinder the development of many other industries. It is precisely for the sake of releasing the internal energy and vitality of numerous enterprises that China began reforming the whole economic structure. This reform started with small and medium-sized enterprises. The current introduction of the new economic responsibility system marks the fact that the reform has made a big step forward.

## Zhongnanhai's Policy Decision

Railroads are the great arteries of the national economy. The railroad industry is a big industry employing 3 million staff members and workers. Introducing a major reform in such a big industry is a major policy decision, one has to admit. Zhongnanhai alone has the final say in such a policy decision.

The policy decision has been brewing for quite some time. Let us leave aside things in the distant past. As long ago as in early 1985, when inspecting Shanxi, Premier Zhao Ziyang pointed out: The Ministry of Railways is required to study the question of a contract system. Zhao Ziyang said: Together with the departments concerned, such as the State Planning Commission and the Ministry of Finance, the Minister of Railways has conducted a thorough investigation and study, gathered a lot of data, and held repeated discussions. In mid-September of last year, the ministry submitted to the State Council a contract proposition based on policy deliberations, which was worked out by using foreign experiences as a reference with a view to adapting them to the realities in China.

On 5 October, Li Peng expressed his approval of the proposition and stated his views on several special questions. He said in view of funds shortages in railroad construction, can the railroads develop themselves using their own accumulated funds? The charges for railroad transport are a little too low. Prior to the overall readjustment of the price system, the railroads using local investment are allowed to set their own transport charges a provisional measure. Although state-owned railroads are not allowed to make price readjustments at will, they are authorized to appropriately raise the charges for the transportation of above-quota coal. The railroads are encouraged to run their operations independently and to increase their depreciation rate.

On 15 October immediately after returning to Beijing from his inspection tours of the northwest plateau in Sichuan Province and the mountainous areas in the southern region of Gansu Province, General Secretary Hu Yaobang wrote on the report on the contract proposition: "I am for the all-round contract system and agree that the system will be implemented next year. In carrying out our undertakings, we should mainly rely on the initiative, enthusiasm, and creativity of the majority of our comrades. Many and varied sophisticated, changeable practical problems cannot be properly solved by relying on the intelligence and wisdom of a small number of people and by using the method in which all revenues and expenditures are handled by the state in a unified way.

To finalize the Ministry of Railways' economic contract proposition, on 31 January, 25 February, and 22 March of this year, Vice Premier Yao Yilin presided over work meetings of the Central Financial and Economic Leading Group on three occasions to deliberate together with industrial experts on the contract proposition. After debating with, enlightening, correcting, and supplementing one another, the experts from five departments, such as the State Planning Commission, the Ministry of Railways, and the Ministry of Finance, ultimately reached a consensus. At the 22 March meeting, when the

five departments, including the State Planning Commission, unanimously agreed to the proposition on the economic responsibility system of the Ministry of Railways, Yao Yilin said, laughing: "Since there are no objections among you all, let us make a decision. Please all of you affix your signatures right here and now. If the matter is delayed, the Ministry of Railways will be unable to endure!"

At the end of this March, the State Council issued a document to the Ministry of Railways, giving its formal endorsement to the ministry's contract proposal.

This policy decision by Zhongnanhai is by no means an isolated move. The reform conducted by the Ministry of Railways is related to the whole economic structural reform during the Seventh 5-Year Plan period.

In his "Report on the Seventh 5-Year Plan," Premier Zhou Ziyang pointed out: "We must strive to lay a basic foundation for a dynamic socialist economic structure with Chinese characteristics." For this purpose, as an important reform measure, we should introduce various forms of the economic responsibility system among enterprises, in particular, large and medium-sized ones, so as to further expand the decisionmaking power of enterprises in production and operation and enable the enterprises to truly become producers and handlers of socialist commodity production that are independent and responsible for their own profits and losses and capable of carrying out accumulation by themselves and of transforming and developing themselves.

The reform in the Ministry of Railways can be seen as another experiment in reform in China's large-sized enterprises and also as a major reform of the railroads, a nationwide industry under state administrative mechanisms. Therefore, the successful reform of the Ministry of Railways will certainly expedite the success of the reform as a whole.

#### The Railroad Industry Has Begun Taking Action: Bringing About an Upswing in Two Areas of the Industry's Endeavors

With the introduction of the contract system, the Ministry of Railways has become an economic entity capable of fully managing the operation and capital construction of the railroads throughout the country. This requires the industry to transform itself from concentrating on production alone to stressing developmental operation. In other words, it should expand reproduction by relying on scientific management, technological progress, and tapping potential so as they meet the needs of national economic development.

As for what action to take, the Ministry of Railways has considered making two moves, namely, bringing an upswing in two fields of endeavor. In other words, during the Seventh 5-Year Plan period, it is, first, necessary to strengthen and transform the 16,000-km-long busy railroad trunk lines in the northwest and coastal areas. Second, efforts will be made to strengthen the rolling stock industry.

During the Seventh 5-Year Plan period, as far as freight volume is concerned, we will increase the volume of rail freight by 1.6 billion tons and ship 210 million tons of coal out of Shanxi Province to other parts of the country. The passenger volume by railroad will total 1.4 billion journeys. As for capital construction, we will build from scratch 4,600 km of electrified railroad, 2,900 km of multiple-track railroad, and 3,500 km of newly laid railroad track. To achieve the above objectives, the Ministry of Railways has decided to increase intensive investment and strengthen and transform the railroads in the northwest and coastal areas so as to enhance the comprehensive carrying capacity of railroads.

The territory of the northwest and coastal areas constitutes one-third of the nation's total, the population in those areas comprises half of the country's total, and the gross value of industrial and agricultural production makes up 70 percent of the national total. Therefore, the northwest and coastal areas are where the national economic lifelines lie. Although the 16,000 km of railroad in the northwest and coastal areas account for 30 percent of the total railroad business mileage, their freight transport volume amounts to 70 percent of the country's total freight volume. Therefore, the strengthening and transformation of these busy railroad trunk lines will not only change the strained situation in railroad transport but will also increase momentum for the railroad take-off in the 5 years ahead.

During the 5-year plan period, an additional 2,500 km of multiple-track railroad will be laid in those regions, increasing the proportion of multiple-track railroad by 70 percent. There will be 7 transformed and expanded key control classification yards and 10 new and expanding passenger stations. The laying of heavy rail weighing 60 kg per meter along 10,000 km of railroad track will be completed so as to increase the haulage capacity of passenger-cargo trains. More computers will be used in the operation and management of railroads and numerous new technologies and types of equipment will be introduced to form dispatching control systems.

Vigorous efforts will be made to transform the rolling stock industry, because this is the weakest link in the railroad industry as a whole. China's rolling stock industry at present still cannot meet domestic needs. Therefore, during the Sixth 5-Year Plan period, the state had to spend \$500 million buying rolling stock from foreign countries. To put an end to this situation, during the Seventh 5-Year Plan period, the Ministry of Railways' investment in the rolling stock industry will approach the total investment made over the last 35 years following the founding of the PRC. According to the plan, by 1990 our country's capacity to turn out electric and diesel locomotives will increase by 150 percent over 1985, its capacity to produce freight cars will increase by up to 70 percent, and its capacity to produce passenger cars will increase by 120 percent. Haulage systems composed of passenger-cargo trains with different capacities--big, medium-sized, and small--will be formed.

Minister of Railways Ding Guangen has his own views on the prospects for the contract system practiced in the railroad industry. He said: "This is a task that we are carrying out. Since it has just been started, it is too early to predict. However, with favorable natural conditions and the support of the people, we have full confidence in our future."

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CSO: 4006/1130

## INDUSTRY

### PRC JOURNAL ON CHINA'S AVIATION INDUSTRY

HK171243 Beijing BAN YUE TAN in Chinese No 10, 25 May 86 pp 28-29

[Article by Li Anding [2621 1344 1353]: "A New Chapter in the Aviation Industry of Our Country"]

[Text] At dawn on 4 April 4 years ago, a silvery two-propeller passenger plane was taking off the runway at Tianjin airport. That was the "Yun 7," the first China-made civil passenger plane going through the most crucial safety test--the trial flight of takeoff and landing with a single engine. People at the airport were as excited as if some family members were expecting the delivery of a new-born baby. The trial flight was successful and the reliability and safety of the "Yun 7" was proven. At that time, this reporter covered the event; however, he did not think deep enough on the epoch-making significance of the event--China's aviation industry has turned over a new page since then.

Since July 1954 when China's aviation industry produced its first airplane, it has in the main produced airplanes for military purposes, such as interceptors, bombers, attack planes, reconnaissance planes, trainers, planes for multiple purposes, and unmanned planes, which came into being consecutively. However, the manufacture of civil airplanes was not on the agenda of China's aviation industry. In the Economic Yearbook published in 1981, the column for civil airplane manufacturing was not in existence.

It was after the 3d Plenary Session of the 11th Central Committee that Comrade Deng Xiaoping first proposed that China-made airplanes be produced for domestic civil aviation from now on. Other comrades at the central leadership such as Hu Yaobang and Zhao Ziyang also pointed out: The research, preparation, manufacture and use of China-made airplanes must be grasped firmly, and efforts should be exerted to make some breakthrough in the 1980's. Thus, actively developing China-made airplanes for civil purposes had been determined formally as a principle and national strategy.

In the following 4 years, the manufacturing of civil airplanes began its initial steps. The momentum of the initial steps was great, and the result most pleasing, with the rapid development of quite a few types of civil planes such as the "Yun 7," capable of carrying 50 passengers serving on secondary routes, "Yun 8," a medium-type freighter with a deadweight capacity of 20 tons,

"Yun 12," a small-type plane for multiple purposes, "Zhi 8," a medium-type helicopter, and "Zhi 9," a small-type helicopter and freighter. As a reporter covering the aviation industry, I have been invited on several occasions to visit one after another trial flights of new-type China-made airplane, and have been most happily among the first batch of passengers on China-made airplanes flying in China's blue skies. At the work conference on civil aviation called by the State Council toward the end of 1985, it was formally determined that the "Yun 7" passenger planes would be used on the provincial and trans-provincial secondary routes in China's civil aviation from now on and airplanes of the same category were generally not to be imported.

The "Yun 8" medium-type freighter equipped with four propellers has a performance equal to the U.S.-made DC-130, the chief airfreighter model in the world. Only three or four countries are capable of manufacturing such airplanes in the world today. When the 3-meter wide exit is laid down, trucks and tractors may come in or out of it freely. Not long ago, a U.S. "Black Hawk" helicopter was loaded in the belly of "Yun 8," and the airlift was most successful. A sea-patrol plane remodeled on the basis of "Yun 8" is equipped with the most advanced pilot and radar equipment to date, with a patrol radius equal to the distance between Qingdao and Hainan Island. This makes possible wide-range anti-smuggling patrols, environmental monitoring, and the surveying of fish shoals. "Yun-12," a small-type airfreighter, which is beautiful in shape and light in construction, is China's design based on the requirements of the international regulations of aerial navigation. "Yun 11," the passenger planes, are subdivided into the economic and elegant-type in interior decoration. The single-propeller "Yun 5" and the two-propeller "Yun 11" have been most welcome among domestic clients for their smallness and flexibility, ease in maintenance, limited requirements for airport conditions, and economical prices.

The 13-ton large-type helicopter developed and manufactured by China the "Zhi 5," made its first successful trial flight in Jingdezhen on 11 December 1985. This helicopter is suitable for transportation, carrying fuel, first-aid, and passengers and even the installation of high-pressure cable in mountainous areas. In addition, China has also manufactured, in cooperation with France, a number of 4-tone "Zhi 9" light-type helicopters.

Mo Wenxiang, the aviation industry minister told me, another batch of "Yun 7" passenger planes will be put to use in China's domestic civil airlines this year. The year 1986 will go down in China's history of aviation as the end of the monopoly of imported airplanes in China's civil aviation. If we say the 6th "5-year plan" was a period in which China was probing for the initial steps in the manufacturing of its civil airplanes, the 7th "5-year plan" will be a period in which a solid foundation will be laid for the industry. We should take the development of secondary route passenger planes and specialized planes for agriculture and afforestation as the key, and prepare new planes for such purposes by importing technology, cooperating with foreign countries, and by strengthening scientific research and opening the market, in order to create a series of civil airplanes ranging from large to small. We will strive to deliver 200 civil planes of various types for use in the next 5 years, and to make preparations for China's airplanes to fly worldwide.

Some people might think it would be something quite unlikely for China-made airplanes to fly worldwide. The aviation and astronautics industries are the realms of new technologies which have been the most active and have made the greatest breakthroughs in the course of mankind's understanding and remolding of nature in the 20th century. Just as Japan's Honda Automobile Corporation once had an annual output of only 5,000 and it explicitly proposed the need to breakthrough to the worldwide level, and to export its products in huge volume, then China's aviation industry should set up an explicit world consciousness and accept a new challenge based on its existing level. At present, more than 200 senior technicians of China's aviation industry have been sent to the United States and the FRG; they are engaged in the research and design of large-type passenger planes for China's secondary routes in cooperation with the world-famous McDonnell-Douglas and MBB [expansion unknown]. It is expected that China's civil airplanes will become China's important export products in the not-too-distant future.

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INDUSTRY

XINHUA DETAILS PRC STEEL OUTPUT INCREASES

OW011010 Beijing XINHUA in English 0952 GMT 1 Jul 86

[Text] Beijing, 1 Jul (XINHUA)--China's 6-month steel output came to 25.44 million tons this year, up 10 percent over the same period of 1985, an official of the Ministry of Metallurgical Industry said here today. Pig iron output was up 14 percent to 24.07 million tons, he said.

The senior official attributed the increase to technological innovation of the country's iron and steel mills. "This should enable us to turn out 50 million tons of steel by the end of the year," he said. "That would meet the goal by the state."

The Anshan Iron and Steel Company--the largest iron and steel producer in the country--produced 3.7 million tons of steel between January and June, while the newly-built Baoshan iron and steel complex in Shanghai produced 1.04 million tons, the official said.

China has 14 large iron and steel mills, each with an annual capacity of above one million tons of steel, 38 medium-sized mills, each with an annual capacity of 100,000 to one million tons.

According to ministry figures, iron and steel production has increased steadily over the last 6 months. The average daily steel output reached 133,900 tons in January and jumped to 141,000 tons in June. The average daily iron output rose from 127,800 tons in January to 137,000 tons in June.

Chinese iron and steel makers have also improved the quality of their products, manufacturing more alloy steel and steel plates, tubes and strips, all now in great demand in domestic market.

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CSO: 4020/372

INDUSTRY

COTTON CLOTH PRODUCTION, SALES INCREASE

OW301042 Beijing XINHUA in English 1035 GMT 30 Jun 86

[Text] Beijing, 30 Jun (XINHUA)--Stimulated by market demand, China turned out 3.66 billion meters of cotton cloth in the first 5 months of this year, a 28.2 percent increase over the same period last year, according to the Ministry of Textile Industry.

The demand for cotton exceeded the expectations of many specialists, who 3 years ago forecast a decline in the sales of cotton cloth. Because synthetic fabrics last longer and are easier to wash and dry, the demand for cotton was down. In early 1984, the worst period for cotton cloth sales, over 6.6 billion meters of surplus cotton goods were stored in industrial and commercial warehouses.

Today, coats, pants, and underwear made of corduroy, denim and cotton are purchased for their ventilation and moisture absorbing qualities.

Statistics gathered from the Dongfeng bazaar, one of the four largest in Beijing, show that cotton sales in the first 5 months of this year rose by 12 percent over the same period last year. Sources from the Commerce Ministry said that similar increases were seen in many department stores throughout the country. The amount of cotton stored in warehouses declined to 4.6 billion meters, which is considered a reasonable amount.

Many urban and rural families now buy pajamas, bathrobes, window curtains, bedspreads, tablecloths, slipcovers, and other household items that were formerly considered to be luxuries. Since the style, color and variety of household items change very fast, specialists said that there is a bright future for the production of cotton cloth.

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CSO: 4020/372

INDUSTRY

BRIEFS

SEA WATER USED--Jinan, June 20 (XINHUA)--A new textile printing plant in Shandong Province on China's coast has broken with tradition by using treated sea water rather than fresh water. Ding Cunyi, 43, inventor of the new technique and a researcher at the Qingdao Textile Printing Institute, told XINHUA today he believes the Shandong factory is the first to use salt water for dyeing in Chinese history, "perhaps the first in the world." Using salt water costs less, he said. "It improves quality and, because it can more easily be reused, it lessens industrial pollution." Moreover, he said, the new technique can save a lot of fresh water, which is becoming more and more precious in many countries. The new method has been used for 40 days in a printing and dyeing factory in Shandong's Rongcheng County. So far, the factory has produced more than 40,000 meters of cotton cloth with the new technique. "The results prove sea water works better in dyeing than fresh water," a local official said. "It cuts the time needed for printing by a quarter and enables the factory to use 40 percent less dye." Ding is making further research in the hope that the new method could be used to print woollens, chemical fiber and linen fabrics. [Text] [Beijing XINHUA in English 0617 GMT 20 Jun 86 OW]/12766

HARDWARE PRODUCTION TO INCREASE--Beijing, June 19 (XINHUA)--China's hardware output is to grow at an average annual rate of 8 percent over the next 5 years, the Ministry of Light Industry said today. Rapid building of hotels, offices and houses in the past few years has stimulated the market. More foreign funds and advanced technology will be imported to help hit the goal. A national technological research and information center on hardware is to be established. The ministry intends to set up several special bases to ensure materials and models. Stainless steel items for the home include cooking utensils and tableware. All the goods in the next 3 years should be up to advanced international standards of the early 1980s. All new hotels and other tourist centers will use China-made locks by the end of 1990. First on the agenda are measures to increase the variety and improve quality. China now has 6,493 hardware enterprises with a total staff of about 1 million. Output value came to over 8 billion yuan last year. [Text] [Beijing XINHUA in English 0612 GMT 19 Jun 86 OW]/12766

INTERNATIONAL METALLURGICAL INDUSTRY EXHIBITION--China's first international metallurgical industry exhibition opens in Beijing today, featuring displays by 180 companies from 27 countries. Sponsored by the Ministry of Metallurgical Industry, the China National Nonferrous Metals Industry Corp, the China

National Nonferrous Metals Corp. and the China Metallurgical Corp, the exhibition, held in the China International Exhibition Centre, will run until June 30. A spokeswoman for China Promotion Ltd, the organizer, said: "It is a surprise for us to have so many foreign companies attending the exhibition. Many companies are coming to China for the first time and want to find a market here." The exhibition, covering a total area of 3,000 square metres, contains exhibits worth about \$4 million, the spokeswoman said. [Text] [Beijing CHINA DAILY in English 24 Jun 86 p 2 HK]/12766

SHENYANG INDUSTRIAL AREA UPGRADE--Shenyang, 29 Jun (XINHUA)--A top-to-bottom technological upgrading has begun in an industrial area in the city of Shenyang, capital of Liaoning Province, a local official said today. Wu Jiaxiang, who is in charge of the city's planning and economic work, told a news conference that the city will spend 3.4 billion yuan over the next 5 years retooling its Tiexi zone, one of the most famous industrial areas in China. Covering a 40 sq km area, the 60-year-old zone has 824 factories which account for half of Shenyang's annual industrial output value. According to Wu, Shenyang will import contemporary technology and management methods for the overhaul. "We welcome Taiwan, Hong Kong and Macao compatriots, overseas Chinese and foreign investors to participate in the project," he said. Included are enterprises producing electrical appliances, machine tools, general machinery, automobiles, farm machines, pharmaceuticals, chemicals, rubber, textiles and processed foods. To support production, said Wu, water and gas pipe systems will be expanded and heating, storage, transportation, personnel training and medical centers will be built in the zone. [Text] [Beijing XINHUA in English 1347 GMT 29 Jun 86] /9604

WUHAN MILL RECOVERS INVESTMENT--Wuhan, 30 Jun (XINHUA)--The imported 1.7-meter rolling mill at the Wuhan Iron and Steel Company, China's second-largest, has recovered its state investment since it began operation in 1980. The mill, with equipment introduced from Federal Germany and Japan in the 1970s, has generated 4.05 billion yuan in profits and taxes over the past 6 years and 5 months, a company official said here today. This means that the mill has provided 80 percent of the company's profits and taxes during the same period, he explained. In all, it has manufactured 11.46 million tons of rolled steel since 1980, cutting out imports which used to be valued at U.S.\$3.3 billion. The company, located in the capital city of Hubei Province, has used the mill to develop 50 new products, 30 of which are now in mass production, the official told XINHUA. For example, air-corrosion-resistant steel, used for making railroad carriages has a life 12 years longer than normal steel, making it possible for China to save 41 million yuan in maintenance costs annually. [Text] [Beijing XINHUA in English 1208 GMT 30 Jun 86] /9604

CSO: 4020/372

## SMALL-SCALE ENTERPRISES

### COOPERATIVE BUSINESSES MUSHROOM IN COUNTRYSIDE

OW140932 Beijing XINHUA in English 0737 GMT 14 Jun 86

[Text] Beijing, June 14 (XINHUA)—Cooperatively-run businesses are mushrooming in the countryside as a result of recent economic reforms.

According to the State Statistical Bureau, China had 480,000 such joint enterprises or businesses, of which the gross income amounted to 13.3 billion yuan last year.

These businesses employed 4,200,000 people at the end of last year, 18 percent more than 12 months previously. The figure accounted for 1.1 percent of the total rural labor force.

The joint undertakings, which are formed by rural families on the basis of voluntary participation and mutual benefit, had an average of 8.7 employees each last year--1.1 more than in 1984.

The property owned by these businesses was worth a total of 4.88 billion yuan, an increase of 1.5 billion yuan or 44.4 percent over the 1984 figure--an average of more than 10,000 yuan each.

Most of the businesses involve various forms of industry and service trades, according to the statistical bureau, with the former growing faster than the latter.

The number of joint enterprises dealing in agriculture, forestry, animal husbandry and fisheries rose last year. They employ 460,000 people.

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CSO: 4020/364

SMALL-SCALE ENTERPRISES

BRIEFS

TOWNSHIP ENTERPRISES' RESULTS--Beijing, June 24 (XINHUA)--In 1985, 729 counties in China each had township enterprise output values exceeding 100 million yuan, according to the CHINA TOWNSHIP ENTERPRISE NEWS. These counties, accounting for 26 percent of the country's total, are mainly distributed in east and central-south China. They produced a total output value of 199.9 billion yuan last year, 73 percent of the total produced by the country's township enterprises. Wuxi County in east China's Jiangsu Province ranked first with its township enterprises producing an output value of 3.47 billion yuan. Shaoxing County in neighboring Zhejiang Province produced 2.62 billion yuan, and Jiangyin County and Shazhou County in Jiangsu produced 2.53 billion and 2.4 billion yuan respectively. [Text] [Beijing XINHUA in English 0146 GMT 24 Jun 86] /8309

CSO: 4020/364

CONSTRUCTION

HAINAN CARRIES OUT LARGE-SCALE PORT CONSTRUCTION

HK010851 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0932 GMT 30 Jun 86

["Hainan Carries Out Port Construction on a Large Scale"--ZHONGGUO XINWEN SHE headline]

[Text] Guangzhou, 30 Jun (ZHONGGUO XINWEN SHE)--Hainan is carrying out port construction on a large scale in order to increase its loading and unloading capacity and to meet the needs of its economic development.

The principal part of the two new 5,000-ton-class berths at Haikou port, a major port in northern Hainan, has been completed and commissioned recently. This has increased the annual handling capacity of the port from 1 million to 1.5 million tons and enabled 10,000-ton-class cargo ships to directly enter the port after reducing their loads.

The new 10,000-ton-class sundry goods pier at Dongfang County's Basuo port in western Hainan was also completed and commissioned in May.

This year, the state has also approved the construction of two 20,000-ton-class deep-water berths at Danxian County's Yangpu port in western Hainan. The project is scheduled to be completed during the Seventh 5-Year Plan period. Moreover, in the above-mentioned period, Hainan will also undertake the following port projects:

--Expand the Bashuo port area by moving the breakwater further offshore and using the new breakwater to build two 20,000-ton-class flat [guang ban 0342 2647] piers.

--Expand a 300-meter-long wharf for lighters in Haikou.

--Build a 1,000-ton-class wharf for lighters at Wuchang, Wanning County in eastern Hainan, which will gradually be developed into a medium-sized quay.

--During the Seventh 5-Year Plan period two 10,000-ton-class berths will be completed at Haikou port.

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CSO: 4006/1162

CONSTRUCTION

BRIEFS

KEY PROJECTS PROGRESS SMOOTHLY--Since the beginning of this year, the whole region has guaranteed a supply of manpower and financial and material resources for key construction projects and 23 construction projects have smoothly progressed. It can be expected that nine of them can be completed and put into operation one after another in the second half of this year. From March to May, in coordination with departments concerned, the regional Key Construction Projects Leadership Group and the Regional Construction Commission held a meeting on regulation and an on-the-spot work meeting to conduct all-round investigation and study. They carried out the plans for construction one by one and directly solved the problems arising in the course of construction. All trades and professions also went all out to guarantee the construction of the key projects and gave vigorous support in the supply and transport of materials, oil, and equipment and gave priority to the arrangement so that the construction of the key projects can be reliably guaranteed. With reform of the system of the management of capital construction throughout the region this year, the construction of the key projects has been promoted. [Excerpts] [Nanning Guangxi Regional Service in Mandarin 1000 GMT 19 Jun 86 HK] /8918

INLAND WATER PASSENGER PORT--Wuhan, 12 Jun (ZHONGGUO XINWEN SHE)--The pile driving on the Chang Jiang beach near the Wuhan Customhouse for the Wuhan Port's passenger pier, China's largest inland water passenger transport center, was formally begun a few days ago. Wuhan is known as "a thoroughfare to nine provinces." After completion, the passenger pier will be able to handle a flow of 6 million passengers a year and relieve the pressure on the city's 18 main passenger transport routes and short-distance routes. It will operate normally both in the flood season and in the dry season. The passenger transport center is composed of a passenger building, four inclined piers for large passenger ships, a 450-meter-long flood control wall, and a 2-story square. The Ministry of Communications invested 42.9 million yuan in the project which is scheduled to be completed in 1983. [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 0205 GMT 12 Jun 86 HK] /8918

LARGEST-SPAN RAILWAY BRIDGE--Nanning, 24 June (XINHUA)--Two sections of a prestressed-concrete railway bridge with an 80-meter span, the largest of its kind in China, were joined Monday. The 733-meter bridge with 19 piers across the Maoling River in the southern Guangxi Zhuang Autonomous Region will link up a railway line between the regional capital of Nanning and the Fangcheng port of Beihai, one of China's 14 open coastal cities in the region. The Nanning-Fangcheng railway is under construction and will open for service by the end of this year. With a single-track railway and a 12-meter-wide highway, the bridge is characterized by saving rolled steel with less vibration and noise, and easy maintenance. It is a major scientific research project of the Ministry of Railways, which began to build the bridge in December 1984 with new techniques and computer operation. [Text] [Beijing XINHUA in English 1351 GMT 24 Jun 86 OW]/12766

KEY HENAN PROJECTS WORK--The key projects of our province are generally under way smoothly. The total amount of investments in the 17 key projects of the state and province in the first 5 months of this year was more than in the same period last year. Some 50 percent of this year's construction work of the six projects, including No 4 generating unit of the Jiaozuo Power Plant, No 4 generating unit of the (Yaomeng) Power Plant, Pingdingshan No 4 mine, the Wuyang Steel Plant, the Zhengzhou Huanghe highway bridge, and the Kaifeng Chemical Fertilizer Plant, has been completed. At the same time, construction work has progressed quickly. [Excerpt] [Zhengzhou Henan Provincial Service in Mandarin 1300 GMT 1 Jul 86] /9604

CONSTRUCTION ON SONGHUA RIVER BRIDGE--Harbin, 1 Jul (XINHUA)--Construction of the longest highway bridge on the Songhua River in northeast China started today in Jiamusi City, Heilongjiang Province. The bridge, 1,397 meters long and 17 meters wide, is one of the country's major projects for completion during the Seventh Five-Year Plan period (1986-90). It involves a government investment of 85 million yuan and is expected to be completed by 1990. [Text] [Beijing XINHUA in English 1340 GMT 1 Jul 86] /9604

CSO: 4020/372

DOMESTIC TRADE

NORTHERN ZONE BREAKS DOWN ECONOMIC BARRIERS

OW110824 Beijing XINHUA in English 0809 GMT 11 Jun 86

[Text] Beijing, June 11 (XINHUA)--A new economic zone in northern China is reaping the rewards of local business cooperation, today's PEOPLE'S DAILY reported.

Economic barriers, which used to prevent cooperation between areas, have been broken down in the zone, which covers Beijing, Tianjin and six cities and 47 counties in Hebei Province, the newspaper said.

The urban and rural areas have cooperated with each other over the past year in the supply of skilled workers, finance and technology for various forms of production, such as farming, rural sidelines and industry.

Statistics five Hebei prefectures show that they have attracted 11,000 scientists and technicians and raised 270 million yuan through 13,000 cooperative schemes with Beijing and Tianjin.

Meanwhile, they have supplied the cities with 1.1 billion yuan worth of farm and sideline produce during the past year.

Hebei provincial authorities are encouraging local industries to set up further economic links with Beijing and Tianjin.

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CSO: 4020/364

FOREIGN TRADE AND INVESTMENT

INSURANCE AIDS SINO-FOREIGN COOPERATIVE VENTURES

OW191727 Beijing XINHUA in English 1440 GMT 19 Jun 86

[Text] Beijing, June 19 (XINHUA)—China's insurance business concerning foreign interests has been developing in the direction of involving more high technology, greater sums of money and greater risks, according to an official of the People's Insurance Company of China (PICC).

The sole state-owned insurance business is considering insurance services to Chinese departments which plan to help with satellite launching for foreign countries, Wei Runquan, general manager of the foreign insurance department of the PICC, told reporters today.

It also plans to underwrite insurance policies for a nuclear power plant with foreign involvement, which is under construction in Guangdong Province.

The insurance business volume as regards China's foreign trade and foreign activities in China grew at an annual rate of 10 percent in recent years, Wei said.

In the first four months of this year, premiums in this field reached 96 million U.S. dollars, 12.48 percent more than in the same period of last year. That of goods transportation increased by 39 percent and that of non-marine sectors by 85 percent.

In insurance business which mainly involves foreign trade, now has been expanded to include Sino-foreign joint ventures, enterprises with sole foreign capital, and large China-foreign economic and technical cooperative projects.

The insurance business, which has more than 80 categories of coverage now, has been extended to all of China's provinces, municipalities and autonomous regions on the mainland to cover foreign trade, ocean-going voyages, oil prospecting, utilization of foreign funds and technology, contract projects and labor service abroad, and international tourism.

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CSO: 4020/363

FOREIGN TRADE AND INVESTMENT

ZHONGGUO TONGXUN SHE ON SUSPENSION OF DIRECT TRADE WITH INDONESIA

HK220317 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1024 GMT 21 Jun 86

[Text] Jakarta, 21 Jun (ZHONGGUO TONGXUN SHE)--According to a report carried in Indonesia's SINAR HARAPAN on 18 June, Indonesia's direct trade with China has been suspended recently due to the goods inspection procedures.

The paper quoted a well-informed personage who was unwilling to give his name. The source said that unless Indonesian President Suharto takes up the matter personally, it would be impossible to resume Indonesia's direct trade with China.

According to the Order No 4 issued by the Indonesian president in 1985, the newspaper report said, all goods transported from China to Indonesia should be examined at the port of loading by SGS (societe generale de surveillance), an inspection organ entrusted by Indonesia, or its branches and subsidiary bodies, or other units confirmed by the organ.

As China does not permit foreign organs to examine goods in its ports, the representative of China's Import and Export Commodity Inspection Bureau reached an agreement with SGS in Jakarta this January which stipulated that the China Import and Export Commodity Inspection Bureau will be responsible for examination of the goods to be transported to Indonesia before loading and will issue inspection reports under the name of SGS.

However, the China Import and Export Commodity Inspection Bureau received a telegraph from SGS's Hong Kong office on 1 April 1986 which said, "No inspection reports can be issued (by the Chinese side) unless the goods are examined by SGS." This resulted in the suspension of Indonesia's direct trade with China.

According to the well-informed personage, the telegraph sent by SGS's Hong Kong office was based on Indonesian Trade Minister Saleh's letter of 8 February to the responsible person of SGS's Jakarta office. The letter said: In light of Order No 4 issued by the president and other relevant decisions, all goods to be transported to Indonesia should be examined by SGS at the port of loading. SGS should also be responsible for issuing inspection reports.

The well-informed personage said that the agreement reached between the China Import and Export Commodity Inspection Bureau and SGS does not run counter to

Order No 4 issued by the president of Indonesia. The letter written by the Indonesian trade minister is unintelligible and also a retrogression. As the case involves understanding of the relevant orders issued by the president, it can be settled only when the president takes up the matter personally.

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CSO: 4006/1149

FOREIGN TRADE AND INVESTMENT

BRIEFS

**GUANGDONG FOREIGN TRADE**--Guangdong Province's situation in foreign trade has become better and better since the beginning of this year. The cumulative total of exports by the middle of June reached \$1,606 million, recorded in an increase of 53.5 percent over the same period last year, constituted a record, and ranked first in the whole country. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 0300 GMT 25 Jun 86 HK]/12766

**GUANGDONG MEETING ON EXPORT WORK TASKS**--Guangdong performed well in foreign economic relations and trade in the first half of this year. By mid-June, total export value, use of foreign investment, and foreign exchange earnings from compensation trade exports showed big increases over the same period last year. In order to achieve still greater success, the provincial Foreign Economic Relations and Trade Commission held a work conference yesterday to arrange export work in the second half of the year. Vice Governor Yu Fei proposed a number of tasks to be currently tackled well: 1) Speed up the building of the export production setup. The province must get a good grasp of its 284 foreign exchange-earning projects which have already started work or are currently being launched. 2) Implement the various policy measures to encourage exports. The provincial government has agreed to allocate in advance the foreign exchange retained in the first half of the year. This foreign exchange must be spent on expanding exports in accordance with the regulations. 3) Get a good grasp of organizing export sales. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 0300 GMT 29 Jun 86 HK]/12766

**INVESTMENT PROTECTION AGREEMENT**--Hong Kong, 23 Jun (ZHONGGUO TONGXUN SHE)-- According to a report from Kuala Lumpur, Hu Gang, China's ambassador to Malaysia, disclosed the other day that China and Malaysia will sign at the end of this year an agreement on protecting investment. Hu Gang disclosed the news during his visit to the Pinang State Chinese Chamber of Commerce. Hu Gang said: China's economic and trade delegation will visit Malaysia at the end of this month to discuss the agreement with the Malaysian Trade and Industry Ministry. So far, 15 countries have signed this kind of agreement with China. Following Singapore and Thailand, Malaysia will be the third Southeast Asian country to sign such an agreement with China. Hu Gang also said: China plans to set up a steel rolling mill on (Namin) [na min 4780 7044] island in east Malaysia. This is China's first joint management investment plan in Malaysia. He expected the mill to produce 600,000 tons of steel products annually. Half of the products will be sold to China and the other half will be sold in Malaysia or other countries. Moreover, China also plans to set up a timber plant in east Malaysia. [Text] [Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1231 GMT 23 Jun 86 HK]/12766

## LABOR AND WAGES

### XINJIANG HOLDS GRADUATE ASSIGNMENT RALLY

HK191322 Urumqi Xinjiang Regional Service in Mandarin 1200 GMT 13 Jun 86

[Excerpts] At this afternoon's mobilization rally to assign this year's university and college graduates in the region, Regional CPC Committee Deputy Secretary Janabil said: In the assignment of this year's university and college graduates in the region, it is necessary to adhere to the principle of making unified arrangements, providing rational employment, guaranteeing the focal points, and taking the general situation into consideration. It is essential to gear the employment of the graduates to the needs of the grass-roots, rural and pastoral areas and to strengthen the production of forefront.

In his speech, Janabil pointed out that at present, the region is running short of various kinds of specialized qualified personnel. According to statistics, the region is in need of some 20,000 university graduates of various categories this year but the university graduates of who can be assigned in the region this year account for only one-fourth of the number of graduates needed.

Comrade Janabil pointed out emphatically: This year, it is necessary to assign university graduates to jobs suited to their special training to continuously reinforce the departments of energy, communications, agriculture, forestry, education, light and textile industries, raw materials, and the key construction projects. He said: In accordance with requirements for the development of agricultural, livestock, and timber production, and with the relatively backward situation in culture, education, and public health in rural and pastoral areas the special fields in agriculture, forestry, medicine and teachers training, must assign more graduates to rural and pastoral areas and the production forefront.

In conclusion, Comrade Janabil hoped that this year's university graduates would firmly establish lofty Communist ideals and subordinate their individual future to the future and destiny of the state, nation, and people. They must inherit and carry forward the glorious traditions of building and devoting themselves to the border areas like the intellectuals of the older generation. In response to the party's call, they must go to the most remote prefectures, autonomous prefectures, and counties of extreme hardship in the region. They must render meritorious service for the prosperity of the region and for the richness and well-being of the people of all nationalities.

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CSO: 4006/1147

## LABOR AND WAGES

### BRIEFS

**LIAONING STUDENTS VOLUNTEER**--Shenyang, June 30 (XINHUA)--More than 1 million students in northeast China's Liaoning Province have taken part in voluntary labor since the beginning of this year, as part of their activities to enhance their political awareness and sense of discipline. Organized by local youth league committees, these middle school and university students have helped to clean parks, harbors, railway stations and other public places. They also planted 4.7 million trees. The students have organized 36,000 groups. Through voluntary activities they had more contacts with workers and peasants. Since the province was badly flooded last summer, more than 80,000 students living along the Liaohe River have engaged in projects to reinforce dams and dredge rivers. It is estimated that the students have dug 24,000 cubic meters of earth and constructed 30,000 meters of dams. [Text] [Beijing XINHUA in English 1434 GMT 30 Jun 86 OW]/12766

**NEI MONGGOL HOLDS RALLY**--A regional rally to commend advanced collectives and workers who have done a good job in carrying out ideological and political work among institutions of higher learning concluded in Hohhot on the afternoon of 22 June. The rally was jointly sponsored by the Propaganda Department of the regional CPC Committee, the regional Education Department, the regional Trade Union Council, and the regional CYL Committee. Issuing awards and certificates of honor to the advanced collectives and workers were regional party and government leaders, including Bu He, Zhou Rongchang, Liu Yunshan, and Zhao Zhihong. During the rally, Comrade Bu He made a speech, calling on institutions of higher learning to strengthen ideological and political work. Liu Yunshan, Standing Committee member of the regional CPC Committee and director of the Propaganda Department of the regional CPC Committee, delivered a speech at the rally. Zhao Zhihong, vice chairman of the regional government, also delivered a speech at the rally. [Excerpts] [Hohhot Nei Monggol Regional Service in Mandarin 2200 GMT 23 Jun 86 SK]/12766

CSO: 4006/1147

POPULATION

STATISTICS ON POPULATION OF MAJOR CITIES RELEASED

OW281114 Beijing XINHUA Domestic Service in Chinese 2258 GMT 26 Jun 86

[Text] Beijing, 27 Jun (XINHUA)--Reference material: Statistics on the population of China's cities each with a population of more than 1 million (released by the Ministry of Public Security of the People's Republic of China).

| <u>Name of city</u> | <u>Total population<br/>at end of 1985</u> | <u>Nonagricultural<br/>population among<br/>the total</u> |
|---------------------|--|---|
| Shanghai            | 6,980,000                                  | 6,870,000   |
| Beijing             | 5,860,000                                  | 5,100,000   |
| Tianjin             | 5,380,000                                  | 4,200,000   |
| Shenyang            | 4,200,000                                  | 3,250,000   |
| Wuhan               | 3,400,000                                  | 2,960,000   |
| Guangzhou           | 3,290,000                                  | 2,570,000   |
| Chongqing           | 2,780,000                                  | 2,080,000   |
| Harbin              | 2,630,000                                  | 2,250,000   |
| Chengdu             | 2,580,000                                  | 1,590,000   |
| Xian                | 2,330,000                                  | 1,730,000   |
| Zibo                | 2,300,000                                  | 800,000   |
| Nanjing             | 2,250,000                                  | 1,920,000   |
| Liupanshui          | 2,220,000                                  | 360,000   |
| Taiyuan             | 1,880,000                                  | 1,390,000   |
| Chengchun           | 1,860,000                                  | 1,470,000   |
| Dalian              | 1,630,000                                  | 1,380,000   |
| Zhaozhuang          | 1,590,000                                  | 290,000   |
| Zhengzhou           | 1,590,000                                  | 1,000,000   |
| Kunming             | 1,490,000                                  | 1,080,000   |
| Jinan               | 1,430,000                                  | 1,160,000   |
| Tangshan            | 1,390,000                                  | 940,000   |
| Guiyang             | 1,380,000                                  | 890,000   |
| Linyi               | 1,370,000                                  | 190,000   |
| Lanzhou             | 1,350,000                                  | 1,060,000   |
| Tai'an              | 1,330,000                                  | 220,000   |
| Pingxiang           | 1,290,000                                  | 370,000   |
| Suizhou             | 1,280,000                                  | 190,000   |
| Anshan              | 1,280,000                                  | 1,110,000   |
| Qiqihar             | 1,260,000                                  | 970,000   |

|              |           |           |
|--------------|-----------|-----------|
| Yancheng     | 1,250,000 | 260,000   |
| Qingdao      | 1,250,000 | 1,160,000 |
| Hangzhou     | 1,250,000 | 1,020,000 |
| Fushun       | 1,240,000 | 1,100,000 |
| Yulin        | 1,230,000 | 120,000   |
| Chaozhou     | 1,210,000 | 270,000   |
| Dongguan     | 1,210,000 | 250,000   |
| Xiaogan      | 1,200,000 | 130,000   |
| Fuzhou       | 1,190,000 | 780,000   |
| Suining      | 1,170,000 | 120,000   |
| Shijiazhuang | 1,160,000 | 930,000   |
| Xintai       | 1,160,000 | 170,000   |
| Changsha     | 1,160,000 | 960,000   |
| Jilin        | 1,140,000 | 910,000   |
| Nanchang     | 1,120,000 | 910,000   |
| Baotou       | 1,100,000 | 900,000   |
| Puyang       | 1,090,000 | 130,000   |
| Huainan      | 1,070,000 | 620,000   |
| Zhongshan    | 1,060,000 | 240,000   |
| Luoyang      | 1,050,000 | 650,000   |
| Weifang      | 1,040,000 | 310,000   |
| Laiwu        | 1,040,000 | 140,000   |
| Leshan       | 1,030,000 | 320,000   |
| Jingmen      | 1,020,000 | 230,000   |
| Ningbo       | 1,020,000 | 550,000   |
| Urumqi       | 1,000,000 | 940,000   |
| Heze         | 1,000,000 | 120,000   |
| Datong       | 1,000,000 | 700,000   |

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CSO: 4006/1161

POPULATION

URBAN POPULATION STATISTICS PUBLISHED

OW281124 Beijing XINHUA Domestic Service in Chinese 2310 GMT 27 Jun 86

[Text] Beijing, 28 Jun (XINHUA)—The nation's urban population statistics chart (based on 1985 yearend figures)

(Provided by the PRC Ministry of Public Security)

| <u>Population</u>    | <u>Total population</u> |                             |                | <u>Nonagricultural population</u> |                             |                |
|----------------------|-------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|                      | <u>Cities</u>           | <u>Population (million)</u> | <u>Percent</u> | <u>Cities</u>                     | <u>Population (million)</u> | <u>Percent</u> |
| Over 2 million       | 324                     | 211.87                      | 100.00         | 324                               | 118.26                      | 100.00         |
| 1 to 2 million       | 13                      | 46.20                       | 21.8           | 8                                 | 29.30                       | 24.77          |
| 900,000 to 1 million | 44                      | 54.84                       | 25.89          | 14                                | 18.18                       | 15.37          |
| 800,000 to 900,000   | 13                      | 12.39                       | 5.85           | 8                                 | 7.45                        | 6.3            |
| 700,000 to 800,000   | 14                      | 11.75                       | 5.55           | 2                                 | 1.69                        | 1.43           |
| 600,000 to 700,000   | 14                      | 10.51                       | 4.96           | 6                                 | 4.44                        | 3.75           |
| 500,000 to 600,000   | 22                      | 14.00                       | 6.61           | 7                                 | 4.47                        | 3.78           |
| 400,000 to 500,000   | 22                      | 11.96                       | 5.65           | 7                                 | 3.86                        | 3.27           |
| 300,000 to 400,000   | 32                      | 14.03                       | 6.62           | 16                                | 7.12                        | 6.02           |
| 200,000 to 300,000   | 46                      | 16.37                       | 7.72           | 29                                | 9.81                        | 8.33           |
| 100,000 to 200,000   | 51                      | 12.72                       | 6.00           | 49                                | 12.03                       | 10.17          |
| Under 100,000        | 42                      | 6.57                        | 3.10           | 101                               | 14.75                       | 12.47          |
|                      | 11                      | 0.53                        | 0.25           | 77                                | 5.13                        | 4.34           |

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CSO: 4006/1161

**POPULATION**

**SPECIAL ECONOMIC ZONE POPULATION**

Beijing XINHUA Domestic Service in Chinese 2317 GMT 27 Jun 86

[Text] Beijing, 27 Jun (XINHUA)--Population statistics of our country's special economic zones: (Provided by the PRC Ministry of Public Security)

Population (at the end of 1985)

| <u>Region</u> | <u>Total population</u> | <u>Nonagricultural population</u> |
|---------------|-------------------------|-----------------------------------|
| Shenzhen      | 232,000                 | 190,000                           |
| Zhuhai        | 155,000                 | 89,000                            |
| Shantou       | 761,000                 | 489,000                           |
| Xiamen        | 546,000                 | 344,000                           |

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CSO: 4006/1161

POPULATION

CHILDHOOD DISEASES CONTROLLED IN JIANGSU

OW121818 Beijing XINHUA in English 1424 GMT 12 Jun 86

[Text] Nanjing, June 12 (XINHUA)--Jiangsu Province in east China has successfully controlled infant diseases by vaccinating nearly all the children over a period of years.

Since 1978, the province has paid great attention to vaccinating children against common diseases. Nowadays, 96 percent of children under the age of seven receive regular vaccinations, an official of the provincial public health department told XINHUA.

As a result, there no poliomyelitis case [as printed] was reported in 66 cities and counties in the province last year, he said. Jiangsu has altogether 75 cities and counties.

The target of the Chinese Ministry of Public Health is to extend immunization to 85 percent of all children at the province level before 1988, and the same percentage at the county level before 1990.

Measles, diphtheria, epidemic encephalitis and whooping cough now are rare in many regions, the official said.

Compared with the average annual incidence in the province before 1978, the 1985 incidence of measles declined by 84 percent, diphtheria by 96 percent, and polio by 82 percent. And 28 cities and counties have had no cases of diphtheria or whooping cough for five years, he said.

He added that the secret of their success was that they had established medical care networks throughout the province and trained more than 35,000 vaccination specialists. Local hospitals and clinics are all equipped with cold storages for preserving vaccines.

/8309  
CSO: 4020/364

TRANSPORTATION

GUANGXI CONFERENCE ON 'TIDYING UP' SOCIAL ORDER ON RAILROADS

HK241100 Nanning Guangxi Regional Service in Mandarin 1000 GMT 22 Jun 86

[Excerpts] The regional conference on tidying up social order on railroads was held at the Liuzhou Railroad Bureau from 20 to 22 June. Zhang Chunyuan, regional people's government vice chairman and head of the regional leadership group for tidying up social order on railroads, attended the conference and spoke. Deputy Director (Jiang Huihua) of the Ministry of Public Security and responsible persons of the national office for tidying up social order on railroads also attended the conference.

Over the past 2 years, leaders of the central government have issued a series of important instructions on tidying up social order on railroads. In accordance with these instructions, our region laid stress on tidying up social order at the section from Jinhengjiang to Hawei. Subsequently, it tidied up social order at the section from Quanzhou to Dongan and the section from Guixian County to Yulin. By tidying up and comprehensive management of social order, it severely cracked down on all criminal and sabotage activities. Social order on the railroads has markedly improved.

This conference summed up and exchanged previous experiences in tidying up social order. These experiences deeply enlightened the representatives present at the conference.

At the conference, Vice Chairman Zhang Chunyuan said: At present, social order on railroads in our region has, on the whole, markedly improved, but has developed unevenly and not been sufficiently consolidated. Social order on railroads in some places is fairly serious. He demanded: Proceeding from realities, all places must analyze the situation in social order on their railroads, strengthen leadership, grasp the focal points, take vigorous measures, and further tidy up social order on the railroads in our region.

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CSO: 4006/1147

HONG KONG

## RESURGENCE SEEN OF FOREIGN ECONOMIC ACTIVITY IN 1986

HK250527 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1459 GMT 23 Jun 86

[Roundup by reporter Guo Weifeng [6753 0251 1496]]

[Text] Hong Kong, 23 Jun (ZHONGGUO XINWEN SHE)--Since the beginning of this year, foreign businessmen have increased their economic activities in Hong Kong. Foreign trade groups have kept coming to Hong Kong, people have witnessed a buy scene of international trade exhibitions and commercial conferences, and various types of foreign companies have been established in Hong Kong. In addition, foreign businessmen have actively engaged in the manufacturing industry and banking business in Hong Kong.

According to statistics compiled by the registration department of the Hong Kong Government, 257 foreign companies have registered in Hong Kong in the year 1985-6, a 27 percent increase over the year 1984-5. Over 30 new foreign companies were set up in the first few months of this year. Most of these new companies have the following characteristics: They are the headquarters for branch companies in the Asia-Pacific region and their investments are of a long-term nature. For example, the five U.S. companies set up in Hong Kong this year are all headquarters for branch companies in the Asia-Pacific region and have long-term exploration plans. In addition, the number of technology companies has increased, including three U.S. companies, one of which is a world leading electronics telecommunications group. Several British high technology companies are planning to set up branch companies in Hong Kong with the aim of exploring the Asia-Pacific market.

Foreign businessmen slowed down their industrial investments in Hong Kong in previous years but have started enlivening such investments beginning this year. This year, Japanese businessmen's investments in Hong Kong are beginning to shift from service trades to the industrial field, and six Japanese firms will establish factories in Hong Kong. The investment in a copying machine factory, which was put into operation several days ago, amounts to HK\$234 million. Japanese businessmen's investments in Hong Kong industry from 1985 to 1986 have been estimated at HK\$800 million. Following the establishment of three foreign banks in Hong Kong last year, another nine foreign banks have been granted Hong Kong business licenses in the first half of this year. Four of the nine are Australian banks. This has brought about a vigorous situation in Hong Kong's monetary field.

Another characteristic is the successive formation of foreign economic groups in Hong Kong. For example, over 40 Swedish trading companies in Hong Kong have formed the "Swedish general Chamber of Commerce." (Akior) [Ya Ji er 0068 1015 1422], vice chairman of the chamber, predicted that the number of member countries will increase to 100 by the end of this year. Preparations are being made for the establishment of the "British Chamber of Commerce." This plan has enjoyed firm support from the British businessmen in Hong Kong. Six foreign commercial banks in Hong Kong have devoted their efforts to the setting up of a "Hong Kong capital market association." All this reflects the active endeavors of foreign businessmen to carry out business explorations in Hong Kong.

Apart from some economic powers such as the United States, Japan, and Britain, which have stepped up economic activities in Hong Kong, other countries which are comparatively weak economically have lost no time in developing business in Hong Kong. Last year, six Belgian companies set up their Far East offices in Hong Kong, and another two Belgian offices started business in Hong Kong in the first 3 months of this year. New Zealand has also formed about eight or nine companies in Hong Kong over the last few years and is ready to make its first investment in building a factory in Hong Kong this year. The Norwegian consul general in Hong Kong said that many Norwegian trading firms and manufacturing companies are planning to set up their offices in Hong Kong.

This year has witnessed an increase in the number of trade exhibitions and commercial conferences held in Hong Kong, and a total of 147 has been confirmed. The increase is so fast that exhibition and conference halls have proved to be inadequate. It has been estimated that the number of people participating in exhibition and conference activities in Hong Kong this year will increase by 21 percent over last year.

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CSO: 4006/1148

HONG KONG

#### **DOMESTIC EXPORTS SHOW SLIGHT IMPROVEMENT**

HK210447 Hong Kong SOUTH CHINA MORNING POST in English 21 Jun 86 Business Post p 1

[Article by Paul Baran]

[Text] Domestic export growth for last month should fall slightly to about 10 percent, but trade analysts said the continuing rise indicates the sector is firmly back on its feet after a sluggish start early in the year.

China-bound re-exports, however, will remain the drag on overall export growth, they said.

Earlier this week, Secretary for Economic Services John Yaxley said the month's export performance was encouraging.

He did not disclose figures, which will be released next week, but indicated growth had continued.

The government's forecast for gross domestic product growth of 4 1/2 percent is based on a 7 1/2 percent rise in domestic exports and a four percent gain in re-exports.

"Ten percent (domestic export growth) is not bad at all," said an economist with a leading local bank, comparing that level with the flat state of overall world trade.

Analysts noted, however, that respective increases of 22 percent and 17 1/2 percent in domestic exports in March and April were going to be tough to beat because of the seasonal factors, such as the Lunar New Year affecting that period.

Those increases particularly benefited from the holiday, during which a large chunk of Hong Kong's manufacturing activity ceases, falling earlier in the year.

Several factors indicate continued growth in the sector, the economists said.

One of the leading signs is the continuing growth of retained imports of raw materials, explaining that growth in the first quarter hit about nine percent, against a three percent gain in the final quarter of last year.

Also encouraging has been the increased demand for shipping space, which is clear from complaints from exporters that container space is tight, and surges in the number of letters of credit and other trade financing vehicles among exporters, they said.

But one of the most dependable indicators, however, has been the steady rise of electrical consumption in the manufacturing sector.

The degree of electrical consumption in the sector is clear from data from other sources.

Total manufacturing consumption on Kowloon the geographical hub of Hong Kong's manufacturing output, in the first quarter rose 5.4 percent, accounting for 31.8 percent of all consumption.

Leading the sector in consumption growth was the textile sector, which soared 15.2 percent in the quarter, followed by clothing, which climbed almost 10 percent.

Together, the two categories claimed almost 13 percent share of total consumption.

The "other manufacturing" sector rose 5.1 percent, accounting for an eight percent share of total consumption, while the plastics and toys category rose about one percent.

Combined, the categories accounted for about 13 percent of total consumption.

Declines, however, came from the beleaguered metal products and electronics groupings, which fell 4.5 percent and 2.2 percent, respectively.

Analysts were unwilling to make forecasts for last month's re-export performance, but the overall view was bearish.

Re-exports are goods assembled for export in Hong Kong from parts imported from elsewhere.

As long as China--Hong Kong's major re-export market--continues to keep a tight grip on the foreign exchange pursestrings, all agreed the prospects for the sector were limited.

In the year's first quarter, re-exports to China fell 33 percent, with the overall level down six percent.

One analyst said China's concern over its shrinking foreign currency reserves--the reason for the squeeze--shows no signs of letting up, indicating re-exports should remain flat for at least the next few months.

Domestic exports to China, which fell 20 percent in the first quarter, will also continue to be affected by the controls, he said.

The fact that Hong Kong is running a trade deficit did not worry any of the analysts, although there was concern that it should not continue to swell.

At the end of the first quarter, the \$2.5 billion deficit compared with a small surplus a year earlier.

However, one analyst said: "We have always run at a deficit. It's just a return to normalcy."

What is more important, he said, is the current account--total exports of goods and services--which showed a healthy surplus in the period.

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CSO: 4020/368

HONG KONG

**DOMESTIC EXPORTS FOR MAY RISE 14 PERCENT OVER 1985**

HK270423 Hong Kong SOUTH CHINA MORNING POST in English 27 Jun 86 Business Post p 1

[Article by John Blaton]

[Text] Hong Kong's domestic exports last month rose 14 percent to \$12.33 billion from a year earlier, lending weight to forecasts that the territory's export sector is firmly back on its feet after a long repose.

Although the rate of growth was higher than the 10 percent predicted by analysts earlier this week, it still fell well below the consecutive increases of 22 percent and 17.5 percent attained in March and April.

Provisional statistics released yesterday by the Census and Statistics Department also revealed the effect of China's dwindling foreign exchange reserves on Hong Kong's export trade.

The value of re-exports for last month, at \$9.86 billion, grew only 5.8 percent compared with May last year. Thus the combined value of domestic exports and re-exports, at \$22.2 billion, brought the overall rate of growth for exports down to 10.2 percent.

The figures for last month also compare favourably with those for April, with domestic exports expanding by 8.7 percent and re-exports by 3.2 percent.

It is interesting to note, however, that the value of domestic exports in the last 12 months has actually dropped 2.8 percent to \$133.25 billion compared with the period covered from June 1984 to May last year, reflecting the aftershock of last year's export slump.

And during the same period, re-exports have risen a surprising 7.3 percent, lifting the value of total exports in the last 12 months 1.4 percent.

A government spokesman attributed the sterling performance of the sector in the past three months to the continuing improvement in the economy of the US, which accounts for more than half of the territory's exports, and to the depreciation of the Hong Kong dollar against most major currencies other than the US dollar.

It is the latter factor which is making the price tags of Hong Kong-made goods increasingly alluring in overseas markets.

In a broader perspective, the value of total exports grew 2.7 percent in the first five months of the year compared with the same period last year. Domestic exports for the same period grew 6.8 percent, but the jump was watered down by an actual decrease in re-exports of two percent.

Further signs of an exported recovery in the local economy are revealed by the value of imports for last month, which grew 16.3 percent to \$22.35 billion from May last year. During the first five months of the year, imports grew eight percent to \$100.49 billion compared with the year-ago period.

Increases in imports are a prime indicator of a healthy manufacturing sector, and that, combined with growing demand for shipping space and a clear rise in electrical consumption by manufacturers in recent months, point to an export boom that continues to gain momentum.

In fact, imports have grown at a faster rate than exports, which has resulted in a negative trade balance in both the figures for the month of May in 1985 and 1986 and those for the first five months of both years.

Last month there was a trade gap of 0.7 percent, compared with a trade surplus in May last year that was equivalent to 4.8 percent of imports.

And for the first five months of this year, the trade [gap] widened to 4.2 percent, while for the same period last year the trade surplus equaled 0.8 percent of imports.

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HONG KONG

UK TRADE COMMISSIONER DISCUSSES TRADE WITH PRC

HK090932 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0305 GMT 5 Jun 86

[Text] Hong Kong, 5 Jun (ZHONGGUO XINWEN SHE)--British Senior Trade Commissioner R. Holloway recently told a ZHONGGUO XINWEN SHE reporter during an exclusive interview that Britain attaches great importance to the Hong Kong market and will not adopt a protectionist policy toward the imports of Hong Kong's textiles for the time being.

He said that seven representatives of British industrial circles would come to Hong Kong on 17 June on a business visit in order to further promote Britain's trade with Hong Kong and China. They are all top executives of the electronics, computer, textile, and machinery industries in Britain. Right after their visit to Hong Kong, some of the representatives will visit the Chinese mainland to become familiar with and probe the market in China.

He pointed out that over the past few years, many British companies have set up their offices in Hong Kong, and last year they set up 59 branches there. There will be a trend of continuous increases this year. In addition to carrying out investment and trade in Hong Kong, many of the Hong Kong branches of British companies serve as bases for opening up the market on the Chinese mainland.

He said that the China Trade Department of the British Trade Commission in Hong Kong provided economic, trade, and investment information for 500 British companies last year.

Holloway said that last year Britain exported 400 million pounds of its products to China. This was only half the value of its exports to Hong Kong, which was 950 million pounds. This figure was satisfactory for a market that had just opened.

He explained further by saying that most of the businessmen who conduct trade with the Chinese mainland like to use Hong Kong as their base, for Hong Kong's personnel, science, and technology can help them overcome the difficulties they encounter in their business.

In regard to UK-Hong Kong trade relations, he said that Hong Kong had a growing economic system with bright prospects. At the same time, Hong Kong's manufacturing industry and service trades are important in the region where it is

situated. Therefore, he believes that UK-Hong Kong trade will continue to improve.

Holloway pointed out that Hong Kong is the second largest market in Asia for Britain, second only to Japan. He explained that compared with UK-Japan trade in which the UK has a huge trade deficit, for many years UK-Hong Kong trade has been balanced. In addition, it rises a little every year. For example, the total volume of trade for the first quarter of this year rose by HK\$310 million over the same period last year. Therefore, Britain attaches great importance to the Hong Kong market.

According to the statistics provided by the Hong Kong Trade Development Council, in the first quarter of this year, clothing continued to constitute the largest part of Hong Kong's exports to Britain, amounting to HK\$920 million and accounting for more than 50 percent of the total volume of Hong Kong's exports to Britain. In that period, machinery and communications equipment continued to be the principal part of Britain's exports to Hong Kong, accounting for 40 percent of Britain's total exports to Hong Kong. Concerning the UK-Hong Kong trade situation this year, Holloway said that for the time being, Britain will not practice protectionism and hinder the imports of Hong Kong textiles. He thinks that as Hong Kong's industry has entered a period of recovery, in the latter half of this year more factories should buy various kinds of machinery from Britain.

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HONG KONG

**PRC RESPONSIBLE FOR LAND SALES FUND LOSSES**

HK240533 Hong Kong HONG KONG STANDARD in English 24 Jun 86 p 5

[Text] The Chinese representatives in the Sino-British Land Commission will take sole responsibility for any losses when a fund set up from land sales in the run-up to 1997 is invested.

A Chinese official, who spoke on condition of anonymity, told THE STANDARD that the three Chinese members in the commission have been entrusted by the Chinese Government to administer the fund with help from an advisory board.

He said details will be announced in the next two weeks.

The Chinese senior representative, Mr Sun Yanbang, earlier said that a fund, tentatively called "The Hong Kong Special Administrative Region [SAR] Land Fund," will be established as a reserve for the post-1997 Hong Kong Government.

The fund will be created with revenue from land sales during the transition, which will be divided between the current government and the SAR, and profits generated by investing the fund.

"The investment is to preserve the value of the fund. Thus, the primary principle is to invest in those sectors with high profit margins, but low risks.

"Moreover, investments will be diversified to reduce risks.

"Obviously, it cannot be guaranteed that there will not be any loss," he said. "But the advisers will not be blamed for losses. They're only supposed to give advice. In fact, the Chinese members of the Land Commission have been entrusted with the responsibility."

He did not say if there would be any compensation from the Chinese Government if there were losses.

"Gains and losses should be considered over a long period of time. In a certain period, you may have profits, but may lose it all later.

"If the investment is made carefully and is based on the suggestions of advisers, we are confident of profits," the official said.

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HONG KONG

BRIEFS

DRAGONAIR LAUNCHES INAUGURAL FLIGHT--Hangzhou--The Hong Kong Dragon Airlines (Dragonair) launched its inaugural flight to Hangzhou on Thursday as a means of further developing tourism and economic and cultural exchanges between the two cities. The Dragonair service, approved by the Civil Aviation Administration of China (Caac), provides "an aerial bridge between the two cities," said Xu Qichao, vice-governor of Zhejiang Province, at a welcoming ceremony in the city's Jianqiao Airport. Sir Yue-kong Pao, chairman of the board and general manager of Dragonair, said at a press conference that Dragonair also plans to fly to five other cities in an effort to promote tourism and economic and cultural ties between the mainland and Hong Kong. Pao arrived in Hangzhou on board the Dragonair's chartered passenger plane with about 120 representatives of business, tourism and journalism circles, including Margaret Chin, chairwoman of the Hong Kong Tourism Association. Qian Wei, deputy director of Zhejiang Provincial Travel and Tourism Bureau, said that his bureau and other local tourist organizations will make use of the new flight service between Hangzhou and Hong Kong to speed up the province's tourist industry. Dragonair was formed last April. It has already started flight services to Xiamen and Guangzhou. According to the board chairman, it is also striving to become an international airline in Hong Kong. [By Li Huahong] [Text] [Beijing CHINA DAILY in English 28 Jun 86 p 3 HK]/12766

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